

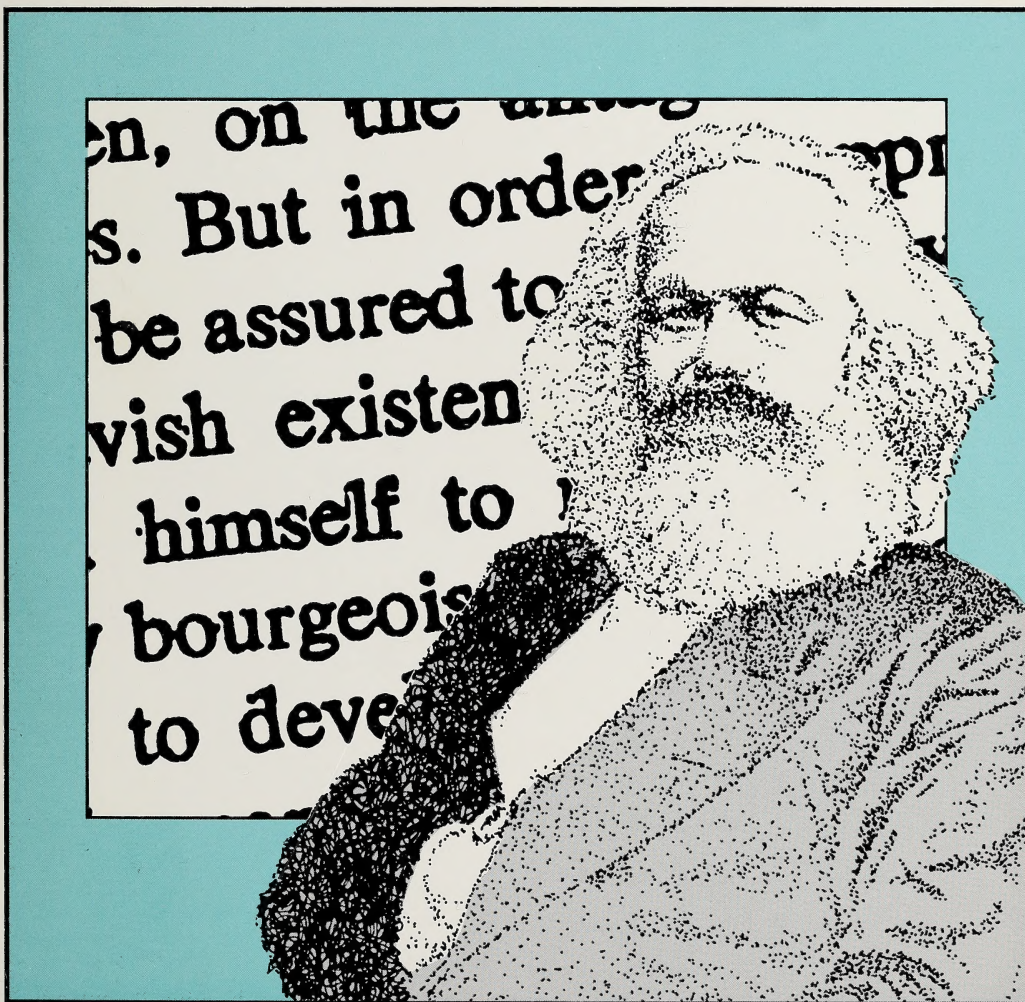
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MODULE 4 SOCIALISM

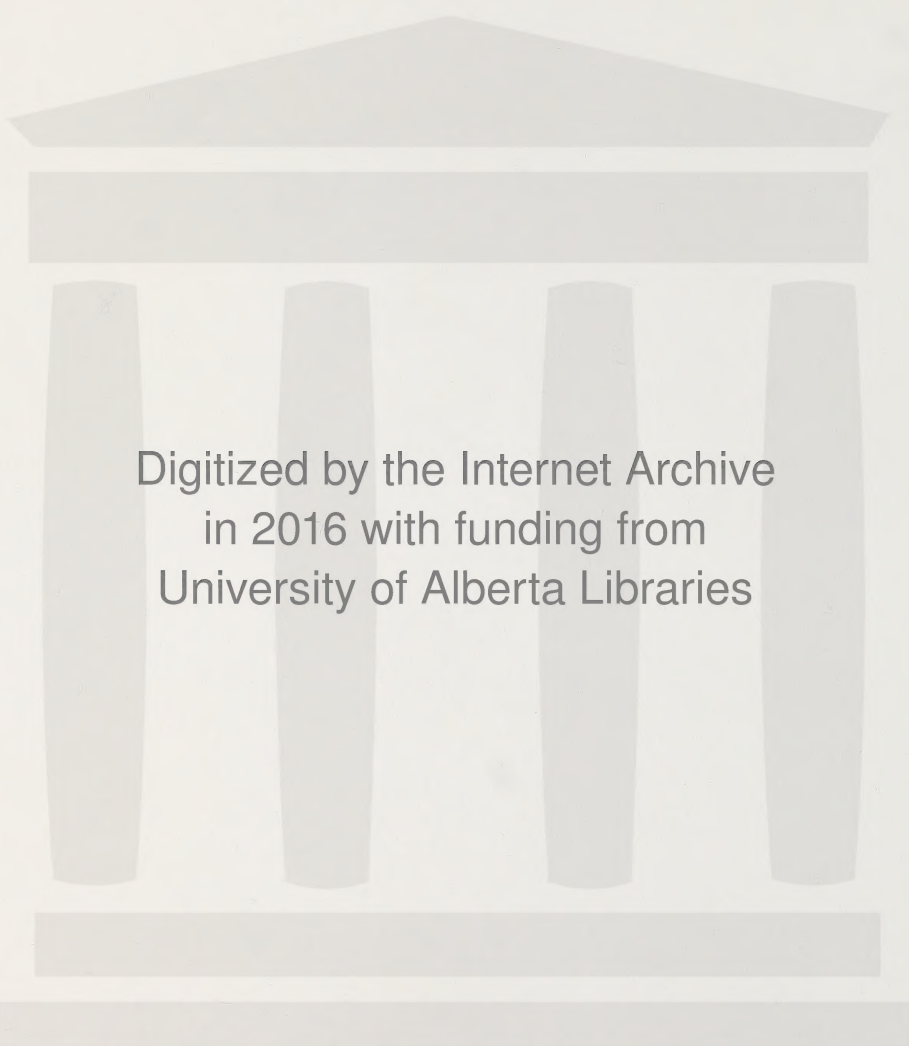


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Social Studies 30

Module 4

SOCIALISM



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Social Studies 30
 Student Module
 Module 4
 Socialism
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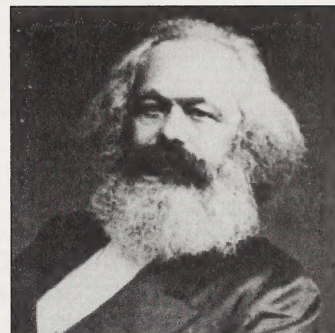
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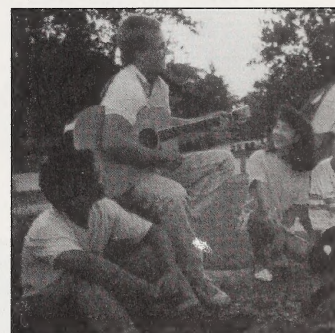
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JIM WHITMER PHOTOGRAPHY

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APPENDIX 112

OVERVIEW

The term *socialism* is a widely misused and misunderstood term. To some it implies a communist takeover. They believe that there would be a loss of freedom and initiative, and increased government involvement and regulation.

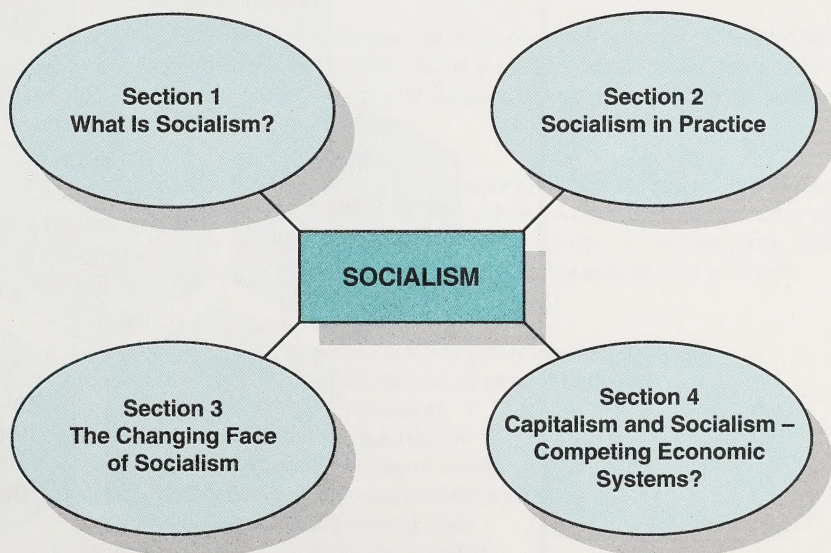
Others see socialism as the logical evolution of capitalism. They see socialism as a more just and morally reasonable system of production and distribution. The result would be a world free of want and one based on sharing and cooperative effort.

Not all socialist theories are the same. Many differ over the methods to be used to bring about change. Still, all socialists have some ties to the **collectivist** value system. In other words, they all promote equality, cooperation, group welfare, shared effort, and varying amounts of public ownership. For this reason, socialism is often equated with the term **public enterprise**. There is a collective ownership of property and group incentive to promote the interests of the entire society.

In this module you will have the opportunity to look at the economic system known as socialism. The theoretical roots of socialism will be examined through the views of a number of nineteenth-century philosophers. Various socialist systems that have been used or that are still in use will illustrate the link between theory and practice. Significant changes are taking place in many traditional socialist systems. Some of these modifications will be studied to provide a view of possible future directions for socialist economic systems. This will be followed by a comparative examination of the two primary economic systems of capitalism and socialism. Lastly, a summary of both political and economic systems will be presented. This final section illustrates the interrelationship that exists between the two systems.

Collectivism: a political or economic theory that promotes group control of production and distribution

Public enterprise: an economic system that stresses group or public ownership or the means of production



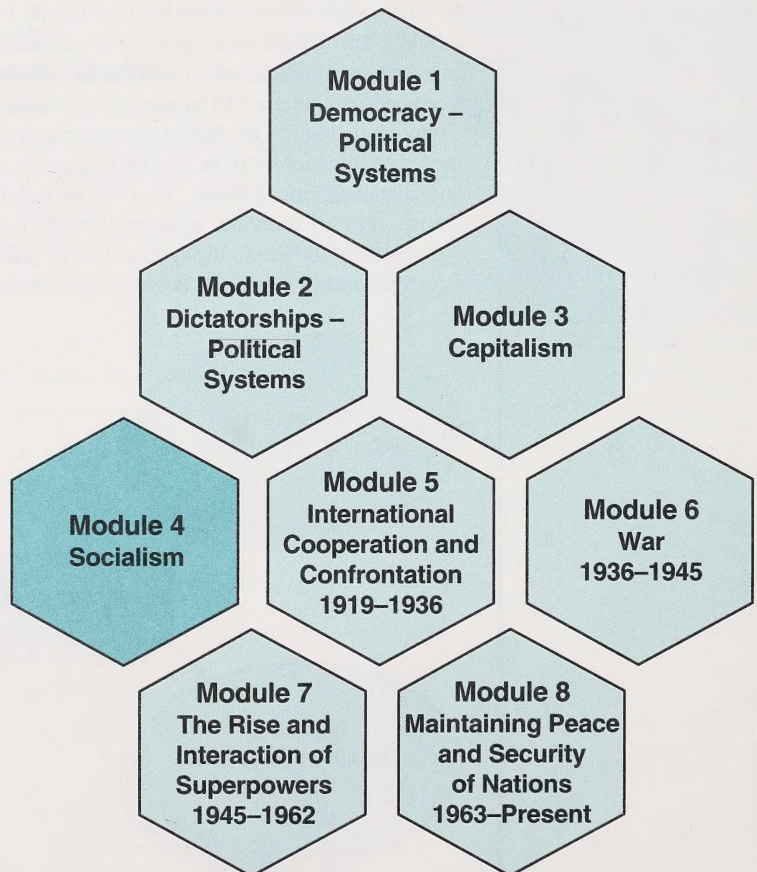
Evaluation

The marks for this module will be determined by work done in the Assignment Booklet. There are four assignments and the mark breakdown is as follows:

Section 1 Assignment	20 marks
Section 2 Assignment	25 marks
Section 3 Assignment	15 marks
Final Module Assignment	40 marks
TOTAL	100 marks

Course Overview

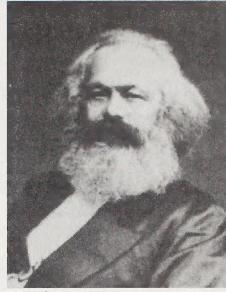
This course contains eight modules. The module you are working on is highlighted in a deeper colour.



What Is Socialism?



Robert Owen



Karl Marx



Eduard Bernstein

The preceding photos are of three men who had very influential definitions of socialism. How would you define the term *socialism*? If you asked several of your friends to define socialism, how would your definitions compare? What differences and similarities would there be in the definitions?

The term *socialism* has many connotations. To some it implies an ideal world without war, crime, or poverty. It would be a perfect world where everyone would care for one another and work together in a spirit of collective good. It would be a perfect environment with perfect people. Others believe that socialism must promote rapid and violent change. Their aim is to form the workers into a class that will overthrow the existing system. Still others think the first group are dreamers while the second are violent radicals. This third group feels the need for a more pragmatic approach. They believe socialist ideals have to be achieved through the democratic process and that changing existing institutions will be the most effective method.

Even with these differing views there are some common features. All stress the justness and fairness of a society whose focus is on the welfare of the group rather than individual self-interest. To varying degrees, each group calls for the public ownership of the means of production.

This section will introduce the economic system known as socialism. It will also examine the philosophies of nineteenth-century thinkers from the three branches of socialism – utopian socialism; revolutionary socialism, or communism; and evolutionary socialism, or democratic socialism. In this section you will learn

- a definition of socialism
- how the Industrial Revolution led to the rise of modern socialism
- the main aim of utopian socialism and its view of humanity
- the views of various utopian socialists
- Marx's theory of dialectical materialism
- Marx's theory of a logical process of history
- Marx's view of nineteenth-century capitalism
- how evolutionary socialists viewed Marx
- the views of various evolutionary socialists

Socialism: an economic philosophy that stresses public ownership of the means of production over private ownership

Equitable: characterized by being equal, fair, just

Industrial Revolution: a rapid economic change in the eighteenth century that was characterized by the introduction of power driven machines and private ownership

John Stuart Mill: a philosopher and classical economist of the nineteenth century

Activity 1: Socialism – What Is It?

Socialism is a controversial term that has different meanings to different people. Basically, **socialism** is an economic philosophy that stresses public ownership of the means of production rather than private ownership. Underlying this philosophy is the belief that this system is morally better because it reduces the gap between the rich and poor. This more **equitable** distribution of the wealth should result in a better society for all.

Socialism can be divided into the categories of utopian socialism, revolutionary socialism or communism, and evolutionary socialism or democratic socialism. However one defines socialism, it is a philosophy that sprang up as a reaction to the abuses of the **Industrial Revolution** in the eighteenth century.

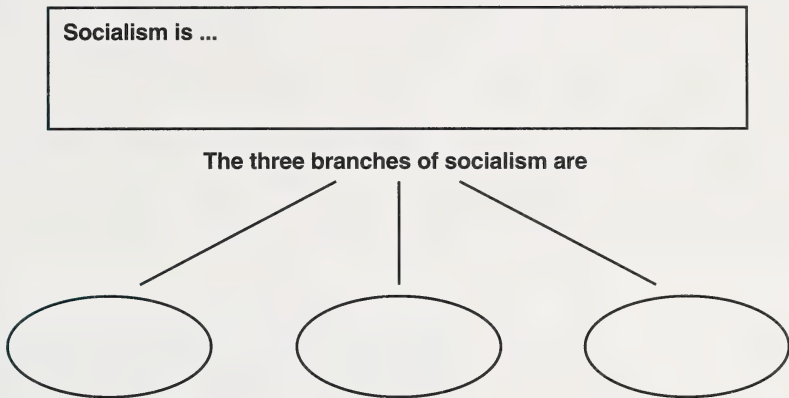
The advances, both scientific and technological, during the Industrial Revolution led people to believe that the problems of poverty, starvation, and suffering could be solved. But as **John Stuart Mill** observed, although the problems of production had been solved, those of distribution had not. The motivation of self-interest and competition did not always benefit society.

It became obvious to some that when individuals were freed from all control and regulation, abuses did occur. The factory system during the Industrial Revolution led to many abuses, such as low pay, long hours of work, and hazardous working conditions.

These conditions led some individuals to search for new means of creating a more just society.



1. Fill in the concept map that follows.



2. What role did the Industrial Revolution play in the rise of the socialist movement?

3. Why does one need to examine the philosophies of nineteenth-century thinkers when studying modern socialism?

4. Explain Mill’s statement, “The problems of production may have been solved but not those of distribution.”

5. Write a generalization that describes the values of a socialist.

6. Place the terms *capitalism* and *socialism* on the following continuum.

left		right
○		○

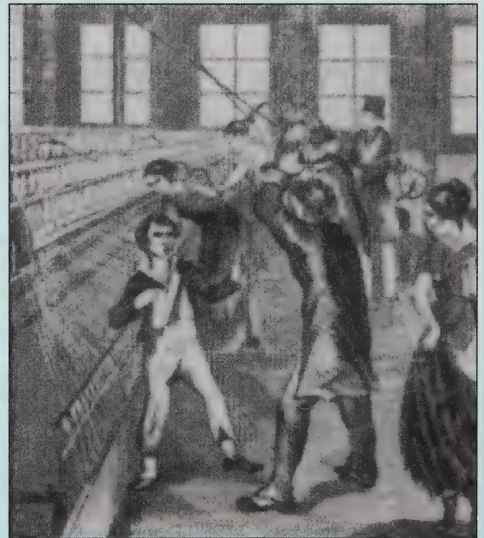
Check your answers by turning to the Appendix, Section 1: Activity 1.

Activity 2: The Industrial Revolution – Life of an Overseer

My name is John. The year is 1796 here in London. I am an overseer in a cotton mill. My job is like a foreman. I have to make sure all the machines are running smoothly and that work gets done in the factory.

Some of the people who work here are very lazy. They are always trying to sneak breaks. My whip and book of fines discourage this.

Sometimes I feel sorry for these people. Most of our workers are women and children. They usually work fourteen hours a day and have to breathe dust and cotton fibres all day for pennies. Most of the children don't live past fifteen years of age.



Any failings met swift punishment.

When they go home, if they have one, there are as many as eight people per bed in filthy, rat-infested rooms. It's no wonder they are pale and sickly.

What can I do? I work for the owner and he makes the rules. He says we have to get more work out of these people just so we can stay competitive with the other factories.

1. List the working conditions discussed.

2. How could this situation have been improved?

3. What programs today prevent some of the situations presented?

Check your answers by turning to the Appendix, Section 1: Activity 2.

Activity 3: Socialism

Utopian Socialism

Enlightenment: an eighteenth century European philosophical movement focusing on a concern for people and their environment

Utopian socialism: the philosophical belief that a perfect person could be created if a perfect environment could be created

The **Enlightenment** was a movement that grew out of a concern for people and their environment. Followers of the Enlightenment believed that a perfect person could be created if one could create a perfect environment. Thus ideal political, economic, and social institutions were needed to create perfect people. This belief in the perfectibility of humankind led to a movement known as **utopian socialism**. This movement seemed to be centred in France and Britain.

Nationalization: the process of government takeover of private companies

Utopia: a time or place of perfection, a heaven or Garden of Eden

Anarchism: a philosophy that advocates the abolition of all formal institutions and the organization of society based on cooperative effort

Lobbying: the act of trying to get legislators to support a particular position

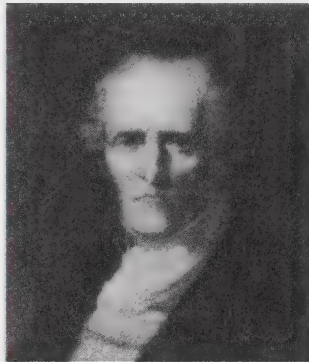
When the French Revolution did not achieve all the goals that some people felt it should have, there was a call for radical change. A number of French intellectuals examined the possibilities of creating perfect people. Some of these men were Emile Babeuf, Comte Henri de Saint Simon, Charles Fourier, Louis Blanc, and Pierre Joseph Proudhon.

Babeuf wrote during the French Revolution. He proposed the **nationalization** of business, provision of adequate food and clothing for the people, and the raising of children in communes.

Saint Simon saw a society run by economic experts. Public ownership would be stressed and individuals would work according to their abilities and be rewarded based on that service.

Fourier suggested a society centred around cooperative economic communities. According to his theory, several hundred people would live in communal housing and work the surrounding land.

Blanc tried to achieve his **utopia** by reforming the existing political and economic systems of his time. His society would be centred on what he called social workshops. It was Blanc who first used the statement "from each according to his ability, to each according to his need."



Fourier



Blanc

Proudhon, often called the father of **anarchism**, advocated the abolition of all formal institutions and the organization of society based on cooperative effort without formal government.

The most widely known British utopian socialist was Robert Owen. After purchasing part ownership of a cotton mill, Owen made sweeping reforms in the nearby village. He established standards of sanitation, housing, and education in order to create a more acceptable environment. He also **lobbied** to improve working conditions in factories and to shorten the hours of work.

All of these utopian socialists had a common view of humankind. They believed perfect people could be created by creating a perfect environment. However, they differed somewhat as to how that perfect environment would be created.

They were often criticized as being too idealistic and as holding unattainable goals. Still, their work did contribute some key elements to other branches of socialism. The utopian socialists contributed the idea of a society run by economic experts (central planning), cooperative economic communities (communes), and reform of the existing system (social democracy).

1. a. What was utopian socialism?

- b. How did the views of Babeuf, St. Simon, Fourier, Blanc, and Owen differ?

- c. (1) What is anarchism?

- (2) Why might it be called total freedom?

- d. Is it possible to create perfect people? Why or why not?

2. Determine whether the following statements are true or false. Correct those statements which are false.

- a. Believers in Enlightenment philosophies thought that perfect people created perfect environments. _____
- b. Utopian socialism was centred in France and Britain. _____
- c. Babeuf proposed the nationalization of industry and the raising of children in communes. _____
- d. Private ownership and reward based on service were stressed by St. Simon. _____
- e. Proudhon promoted the idea of cooperative economic communities. _____
- f. Blanc favoured changes to the existing system to achieve utopia. _____
- g. Anarchism favours the maintenance of existing societal institutions. _____
- h. Owen was an American philosopher who tried to improve working conditions for workers. _____

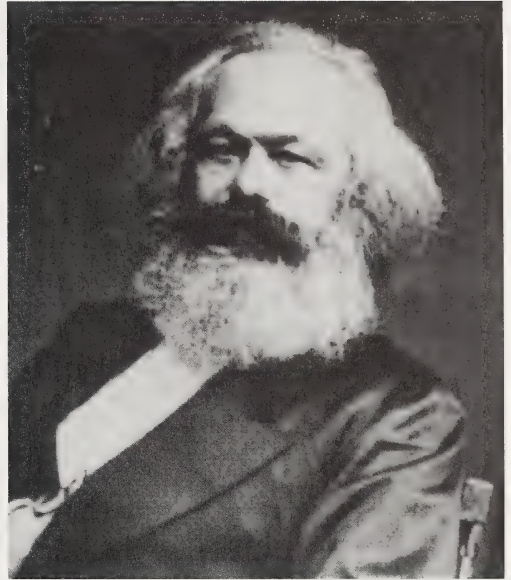
Check your answers by turning to the Appendix, Section 1: Activity 3.

Revolutionary Socialism

The utopian socialists, to some, were idealists – people with their heads in the clouds. One man who perceived socialism in a very different light was Karl Marx. He rejected utopianism in favour of what he called **scientific socialism**. Marx felt that there would be no hope for the workers unless capitalism was overthrown through revolution.

Scientific socialism: the belief that history follows particular patterns of change which could be examined by scientifically looking at the physical world

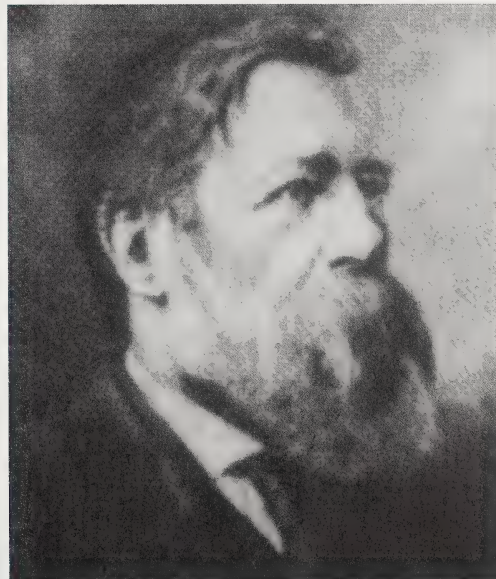
Karl Marx was born in Germany in 1818 into a large and prosperous family. In 1835, he entered university to study law. Upon completion of his degree, he



Karl Marx

abandoned his career in favour of journalism. He became the editor of a radical newspaper in Berlin. After moving to Paris, Marx met and became friends with a young German economist named Friedrich Engels. It was here that the two men

became more actively involved in the socialist movement. In 1848, at the request of the Communist League, the two went to London to present a paper outlining the aims of the League. *The Communist Manifesto* lit a revolutionary fire that was to fuel the development of revolutionary socialism, or **communism**. Marx lived his remaining years in London, often in poverty and failing health. He continued to write, completing the first volume of *Das Kapital* and contributing to the subsequent two volumes. He died in 1883.



Friedrich Engels

Communism: an economic theory, founded by Marx, that stresses the ownership of all means of production by the society as a whole, with all members sharing in the work and the rewards

Activity 4: *The Communist Manifesto*

Some key points in *The Communist Manifesto* include the following:

- 1. abolition of land ownership and application of all rents of land to public purposes
- 2. a vigorously graduated income tax
- 3. abolition of all rights of inheritance
- 4. confiscation of the property of all emigrants and rebels
- 5. **centralization** of credit in the hands of the state, by means of a national bank with state capital and exclusive monopoly
- 6. centralization of all means of transportation in the hands of the state
- 7. extension of factories and instruments of production owned by the state; cultivation of waste lands and improvement of soil generally in accordance with a common plan
- 8. **universal** and equal obligation to work; organization of industrial armies, especially for agriculture
- 9. agriculture and urban industry to work hand-in-hand, in such ways as by degrees to abolish the opposition between town and country
- 10. free education for all children in public schools; abolition of factory work for children in its present form; education to be brought in closer connection with the processes of material production

Which of the preceding policies would a utopian socialist support? Which would an evolutionary socialist support? Which of these policies have been implemented in Canada?

Check your answers by turning to the Appendix, Section 1: Activity 4.

Centralization: concentrating power or authority in the hands of a central organization

Universality: being available to all citizens of a society

Activity 5: The Theories of Karl Marx

Do either Part A or Part B. To do Part B you require access to video equipment and the videotape *The Ideas of Karl Marx*.

Part A

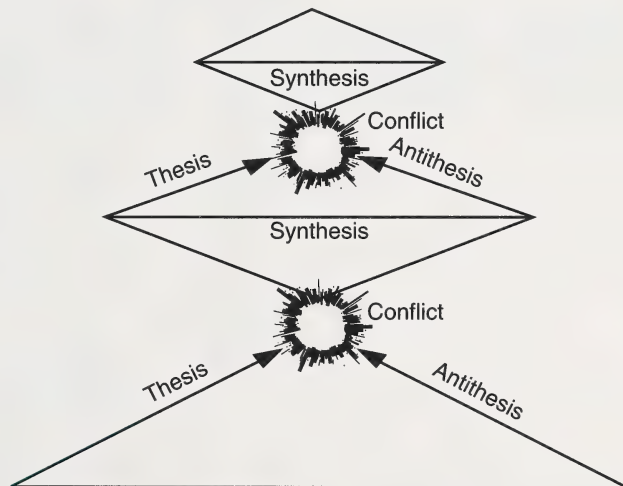
The roots of **communism** can be traced to the writings of Karl Marx. In *The Communist Manifesto* and *Das Kapital*, he described his philosophy, his interpretation of history, and his views on nineteenth century capitalism. It is important to remember that all of these combined together to create the branch of socialism known as revolutionary socialism or communism.

Marxist Philosophy

Marx's philosophy is often equated with the term **dialectical materialism**.

The term **dialectics** was first used by the German philosopher Friedrich Hegel. He used the term to describe change. Hegel felt that change came about when one idea (thesis) was challenged by its opposite (antithesis). Eventually, the two ideas would combine to form a new idea (synthesis), which would again be challenged and the process would begin again.

The Hegelian Dialectic



Marx changed Hegel's orientation. He said he "stood it on its head." For Marx, change was caused by changes in the **modes of production**. As new, more efficient ways to produce things were developed, new classes were formed. These classes were always in opposition to one another.



Dialectical materialism: the theory that all changes in people's ideas and society are caused by material changes in the means of production

Dialectics: a theory developed by the philosopher Hegel which describes the logical process of change

Modes of production: the methods by which things are made in industry or agriculture

Materialism: the belief that only those things with matter exist

Marx combined the ideas of **materialism** and idealism. (Idealism explains things according to divine forces, such as God.) Marx proposed that all changes in people's ideas and society are caused by material changes in the means of production.

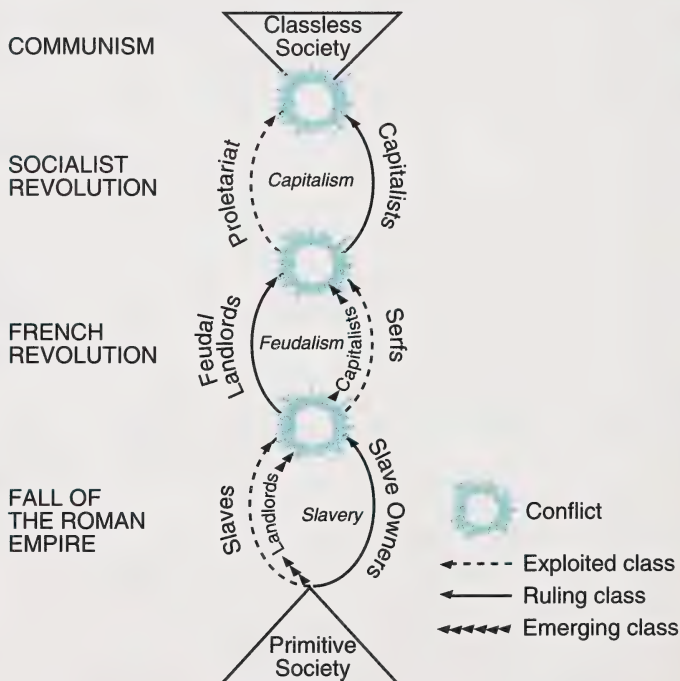
Marxist Interpretation of History

Marx felt history and changes in history followed a particular pattern that could be examined scientifically. He traced much of recorded history to document his beliefs. According to Marx, the history of humanity must be studied in relation to the history of industry and exchange. He felt there had always been conflicts between those who had and those who had not. There was a constant struggle between opposing classes until the final socialist revolution which would eventually result in a **classless society**. Between the revolution and the classless society would be a transitional period of consolidation of political power. This short period he called the **dictatorship of the proletariat**.

Classless society: the state of having no separate classes
According to Marx there would be only one class, the proletariat.

Dictatorship of the proletariat: a short transitional period between the revolutionary overthrow and the state of classlessness

Marx's Historical Dialectic



Proletariat: Marx's term to designate the industrial working class

Bourgeoisie: in Marxist terminology this word designates the wealthy middle class

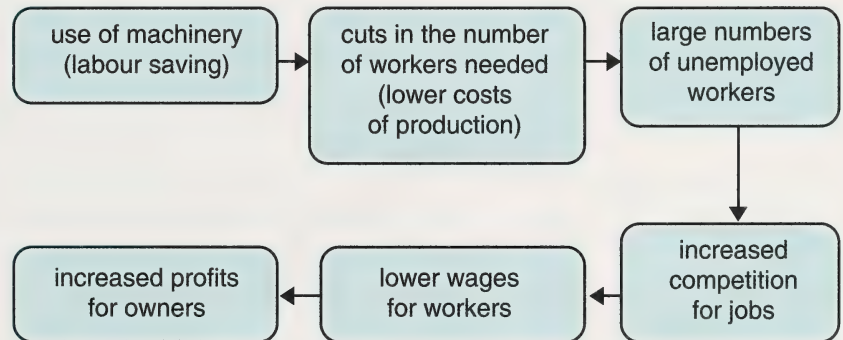
Exploitation: to make unethical use of someone for personal gain or profit

Marx's View of Nineteenth-Century Capitalism

Marx felt modern society had split into two camps, the workers and owners, **proletariat** and **bourgeoisie**. The capitalist system, just as those before it, promoted the **exploitation** of one class by another.

Capitalism, according to Marx, was the most recent economic change. Feudalism had been replaced by an economic and political system dominated by a class of owners. These owners or bourgeoisie had created a more efficient method of production and thus change had occurred. The use of machines and technology increased production.

The owners of the factories and the machines were driven by the motive for profits and because of intense competition they were forced to exploit the workers. If they could force workers to produce more for the same, or even a lower, wage, the owners could increase their profits.



Marx believed this exploitation came about because workers were not paid according to the value their labour produced. The worker was being paid only enough to survive. The difference between what workers were paid and what their production was sold for, Marx called **surplus value**. He felt surplus value should be reinvested in the factory in order to improve production.

Surplus value: according to Marx, the difference between what workers are paid and what their production sells for

$$\text{Cost of a product} = \text{labour} + \text{cost of production} + \text{profit} + \text{surplus value}$$

Bigger, more efficient businesses would force out those less competitive businesses. This would lead to an ever-increasing class of proletarians. The more competition, the larger the desire for profit and the more unstable were workers' incomes. Eventually, the workers would organize themselves into a class and then overthrow the capitalist system.

1. Do you agree that only material things exist? Support your answer.

2. If the collapse of capitalism is inevitable, why are there still capitalist nations today?

3. Fill in the blanks.

In *Das Kapital*, Marx attacks pure _____. He argues that the entrepreneur might not be out to intentionally exploit the _____ to gain wealth, but entrepreneurs do so because they must accumulate _____ to survive in a competitive system. Marx also claims that capitalists unfairly receive a surplus value, and that this value should be rechanneled into the _____ instead of supporting the affluent life of the _____.

Marx suggests that to lower costs and increase profits, capitalists introduce labour-saving _____ which create a large force of _____ workers. This leads to the lowering of _____. The “Capitalist Crisis” later occurs because owners cannot earn a _____ value because they can no longer take advantage of the extra unpaid for work done by the _____. Since profits decline, _____ is no longer worthwhile. Because of dwindling _____ many small capitalists go bankrupt or are absorbed by larger capitalists. These new market conditions with increased _____ favour the bigger firms.

The capitalist view of business accepts that there will be “boom,” and _____ or _____ periods. Marx feels, however, that prosperity and poverty both increasingly fluctuate, eventually resulting in the _____.

Capitalism then ends because the _____ can no longer tolerate it. Marx is not clear about what happens after capitalism. It does seem clear, however, that Marx expected that the _____, which represents the workers, would completely control the _____. Eventually, according to Marx, the _____ would no longer be necessary and would wither away.

Marx borrows a theory called _____ from a man named Hegel to explain the changing world. However, Marx also claims that the _____ world shapes historical events.

4. Complete the following matching assignment.

- | | |
|--------------------|---|
| (1) materialism | a. _____ claimed that the world shaped people |
| (2) business cycle | b. _____ the antithesis of bourgeoisie |
| (3) Engels | c. _____ explained how the workers were exploited |
| (4) bourgeoisie | d. _____ would eventually lead to the rule of the proletariat |
| (5) surplus value | e. _____ created an industrial society |
| (6) Marx | f. _____ stated that people’s thoughts shaped events |
| (7) dialectics | g. _____ lifelong friend of Marx |
| (8) class conflict | h. _____ Marx’s view of the “real” world |
| (9) proletariat | i. _____ the fluctuations of a market economy |
| (10) Hegel | j. _____ Marx’s inherited theory of logical change |

Check your answers by turning to the Appendix, Section 1: Activity 5.



Part B

If you have the appropriate video equipment, view the videotape *The Ideas of Karl Marx* and complete the following questions.

5. What is the socialist view of capitalism?

6. Define socialism.

7. Explain the term *dialectics* as used by Marx.

8. How did Hegel influence Marx?

9. Explain the materialistic view of the world?

10. What is the materialist’s conception of history?

11. What is the dialectical view of history?

12. What are Marx’s explanations of capitalism?

Check your answers by turning to the Appendix, Section 1: Activity 5.

Activity 6: Evolutionary Socialism

In reaction to the perceived violent nature of communism and a number of Marxist interpretations of society, yet another branch of socialism arose. This group questioned the need for the violent overthrow of the state and the creation of an interim dictatorship as proposed by Marx. Marx felt the state served those who created it and, therefore, it had to be destroyed. The evolutionary socialists believed that the existing political and economic institutions could be replaced through democratic parliamentary means.

Democratic socialism: an ideology that stresses the belief that the improved economic and social conditions of a socialist system can be brought about through democratic parliamentary means

In the early 1860s, a young German, Ferdinand Lasalle spoke of **democratic socialism**. He agreed with Marx that the working class was society's future, but he flatly rejected revolution as a means of achieving a more just society. Lasalle was killed in a duel, but his followers maintained his view of gradual change through the democratic process.

Another German socialist, Eduard Bernstein, further promoted the view of evolutionary socialism. In the late 1890s, he published a book that attacked a number of critical features of Marxist theory. He did not accept Marx's view that the social conditions promoted by capitalism and its exploitive nature would end in class warfare and revolution. Bernstein felt that working people had greater prospects under capitalism than through the violence of revolution. He supported the idea of social change through democratic methods. Marxists called this philosophy of gradual change **revisionism**.

Revisionism: an economic philosophy generally opposed to Marxism which stresses gradual reform through parliamentary means

In Britain in the 1880s, little had changed from the previous decade. The much-talked about "workers' revolution" had not taken place. Capitalism flourished, and seemed to be getting stronger than ever. At least in partial response to this, a group of British intellectuals formed the Fabian Society.

Fabianism: a belief in bringing about socialist principles through gradual democratic parliamentary means

Fabianism adopted a philosophy of peaceful persuasion. Members of the Society attempted to convince people of the justness of socialism. They saw socialism as a system that stressed cooperation and equality, rather than competition and **economic stratification**. According to this philosophy, the logical extension of democracy is public control in the public interest. Fabians wished to educate people about the benefits of socialism through publications, and by speaking to influential members of society.

Economic stratification: a layer or level that is formed based on economic standing in a society

Socialism, as understood by the Fabian Society, means the organization and conduct of the necessary industries of the country and the appropriation of all forms of economic rent of land and capital, by the nation as a whole, through the co-ordinate agency of the most suitable public authorities ...¹

¹ Leone, B., *Socialism: Opposing Viewpoints*, Greenhaven Press Minneapolis, 1978, p. 38.

1. What were the evolutionary socialists' main criticisms of Marx?

2. Why would the evolutionary socialists believe that capitalism provided better prospects for workers than communism?

3. Why were evolutionary socialists called revisionists?

4. Who were the Fabians, and how did they reflect the philosophy of revisionism?

Check your answers by turning to the Appendix, Section 1: Activity 6.

A Quick Review

Socialism is an economic philosophy that stresses public ownership of the means of production, as opposed to private ownership. Socialism can be divided into categories: utopian socialism, revolutionary socialism, and evolutionary socialism. Socialism came about as a reaction to the abuses of the Industrial Revolution.

Utopian socialism grew out of the belief that if an ideal environment could be created, perfect people would result. In this utopia, or ideal society, workers would share in the fruits of their labours, and all people would be treated fairly. While the utopian socialists had a common view of humankind, they differed on how a perfect environment would be created. Charles Fourier suggested a society centred around cooperative economic communities. Saint Simon proposed a society run by economic experts. Louis Blanc wanted to reform existing political and economic systems. Robert Owen established a model industrial community, and also lobbied for improving working conditions. Proudhon, the “father of anarchy,” advocated the abolition of all formal institutions, and the re-organization of society based on cooperation. While utopian socialists were criticized as being too idealistic, they contributed the ideas of central economic planning, cooperative communities (communes), and social democracy to other branches of socialism.

Karl Marx was one of those who rejected utopian socialism as being too idealistic. His theories led to the development of revolutionary socialism, or communism. Engels and Marx published *The Communist Manifesto*, which describes a form of complete socialism in which there would be public ownership of all land and all other means of production. Marx’s philosophy (dialectical materialism) was the reverse of the philosopher Hegel’s. In Marx’s view there was a constant struggle between the proletariat and the bourgeoisie which would lead to a violent revolution, and ultimately to a classless society. Between the revolution and the classless society there would be a transitional period of consolidation of political power called the “dictatorship of the proletariat” (This was the position of the USSR). The final stage of communism would be reached when there was total voluntary cooperation.

Note: In Social 30 the former Soviet Union (USSR) will still be called the Soviet Union, even though the country no longer exists.

Another branch of socialism arose in reaction to the violent nature of communism. Evolutionary socialists such as Lasalle and Bernstein believed that the existing political and economic institutions could be replaced through the democratic parliamentary process. This idea of social change through democratic means came to be known as “revisionism.” The Fabians in Britain attempted to convince people of the justness of socialism.

Follow-up Activities

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

There are two Extra Help exercises in this activity. It is only necessary that you do one of these. If you have access to video equipment it is recommended that you watch the video *What Is Socialism?* and complete Part A.

If you do not have video equipment available, then you should do Part B which is a cloze assignment that examines the various branches of socialism and some of their more important terms.

Part A

The video *What Is Socialism?* is approximately 20 minutes long. It identifies a number of values associated with socialism, and it examines the theoretical origins of socialism and its various branches. After viewing the video, answer the following questions.

1. How do socialism and capitalism differ?

2. How did conditions for workers prior to the Industrial Revolution differ from those of workers during the Industrial Revolution?

3. Who were the Utopians and what were their views?

4. Why could communism be called scientific socialism?



5. How does Fabianism differ from communism?

Check your answers by turning to the Appendix, Section 1: Extra Help.



Part B

6. Fill in the blanks to complete the text.

The roots of socialism may be traced back into physics. Sir Isaac Newton's work led to the development of the concept of natural law. If people were able to discover and use these laws, then greater efficiency would be the result. Thus, the economic problem of scarcity could be solved.

Adam Smith picked up this concept and applied it to the field of economics. He founded a doctrine called laissez-faire which argued against government involvement.

The negative effects of uncontrolled freedom were soon noticeable. Society as a whole seemed to be deteriorating for the mass of the people. Essentially, while the problem of production may have been solved, the problem of

_____ was not solved. A group of people felt society's problems could be solved if people were given a perfect environment, thus "causing" perfect people. This group of people were called _____.

Two philosophers active in this area were _____ and _____.

In France, new ideas sprung up. Louis Blanc came up with the famous statement

_____. Blanc advocated ownership of property

by _____ but the management of the property should be in the hands of the _____. Proudhon went even further by advocating the complete end of _____ which he felt existed only to _____ people. This belief came to be called _____.

Events in other areas began to influence economics again. A German philosopher called Hegel developed a theory called the _____ which could be defined as the _____. In this theory, a thesis was matched by an antithesis which resulted in a _____. For Hegel, the causal agent, or thesis, was _____.

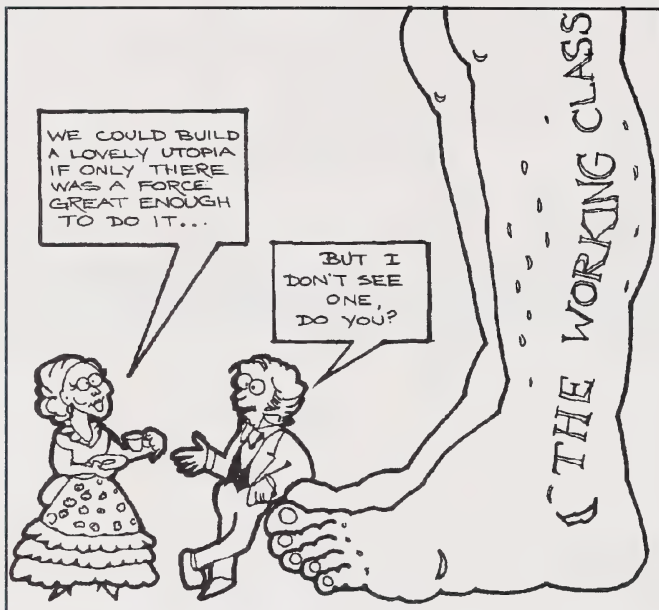
Marx and Engels then began to use previous ideas in the development of their theories of communism. They published two important books, one of which was _____.

Marx and Engels agreed with Hegel's ideas on the nature of change, but differed on the cause. For Marx and Engels, the cause of change was _____. Their beliefs on change were therefore called _____.

Marx argued that humankind began in a situation where goals and the distribution of goods were _____. As time went on, society changed and people formed themselves into _____ that were based on _____ differences. Those in the 'upper' classes were able to sustain themselves by exploiting the workers (also called the _____), and taking over the workers' _____. These "upper" classes ultimately become irrelevant to the society and give rise to a new class that eventually _____.

Check your answers by turning to the Appendix, Section 1: Extra Help.

Enrichment



1. Examine the preceding cartoon and answer the questions.

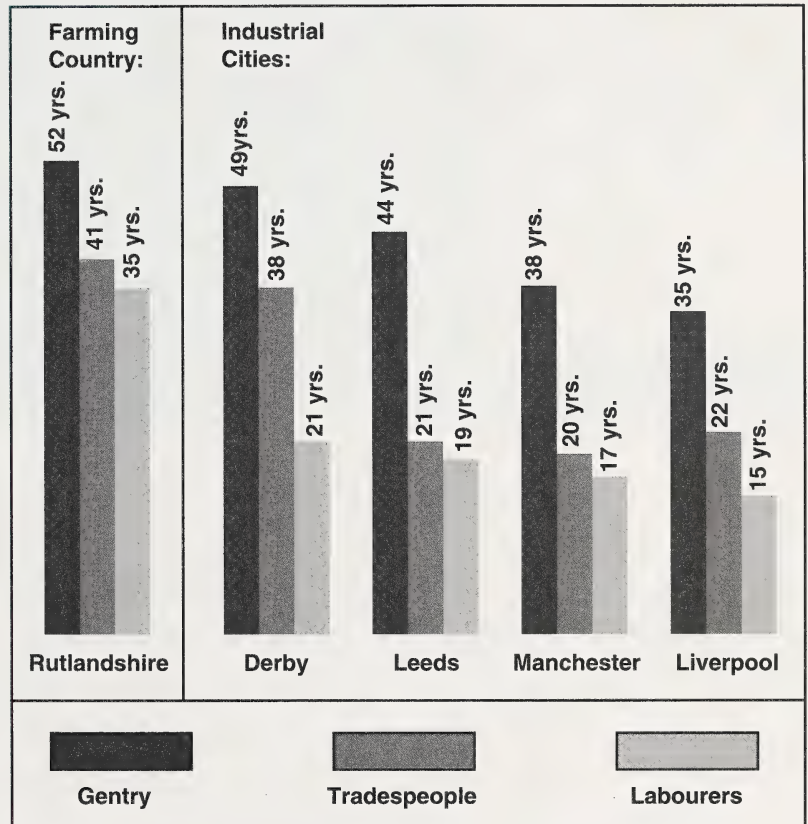
a. How is the cartoonist using symbolism and irony?

b. What is implied in the cartoon?

Check your answers by turning to the Appendix, Section 1: Enrichment.

Use the charts that follow to answer the questions.

Average Age of Death in England About 1840



The Wage and Price Index chart that follows shows changes in wages and prices for the years 1790 to 1850. All of the changes were increases. The numbers in the chart indicate changes from a base year. For this chart the base year is 1790. This means that they took wages and prices in 1790 to be equal to 100. You may think of this as 100%. Then in the years given, wages and prices were recorded. The increases were measured in comparison to the base year, so by 1800 wages had increased about 30% (130–100) and prices had increased about 65% (165–100) from the levels they were at in 1790. The figures given for the other years similarly compare prices and wages to those of 1790.

b. How would a capitalist's view differ?

Check your answers by turning to the Appendix, Section 1: Enrichment.

Conclusion

In Section 1 you have been given an overview of socialism – what it is, how it has developed, and the various ways in which it can be defined. Section 2 will look at practical applications of the theories you have been studying.

Assignment
Booklet

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for this section.

Socialism in Practice



JIM WHITMER PHOTOGRAPHY

Have you ever taken an environmental and outdoor education course? Perhaps you have gone camping with your friends or family. There are courses and information available to provide you with the knowledge on how to prepare for a camping trip, how to choose an appropriate site, how to build your own campfire, and how to best do the many other things required when on an outdoor field trip or camping excursion. While taking the course or reading information on this topic you learn about the necessary skills involved. When you go on the actual field trip or camping outing, it allows you to practise what you have studied and learned to see how it works in a real situation.

Theory forms the basis of practice, but practice puts words into actions. Until theories are actually tried out, no one is really sure whether they will work or not. Someone has to try them out in a real life situation. It is this aspect of putting socialist theory into practice that will be examined in this section.

Lenin, Stalin, and Mao Tse-tung attempted to implement the theories of Marx in their nations (the former Soviet Union and the People's Republic of China). Sweden, on the other hand, has tried to incorporate the revisionist views of Lasalle and other democratic socialists into their nation.

In this section you will learn

- the characteristics of dictatorial socialism, or command economies
- the characteristics of democratic socialism, or the welfare state
- how dictatorial socialism was implemented by Lenin and Stalin in the USSR, and by Mao Tse-tung in China
- how Sweden has implemented the philosophy of democratic socialism

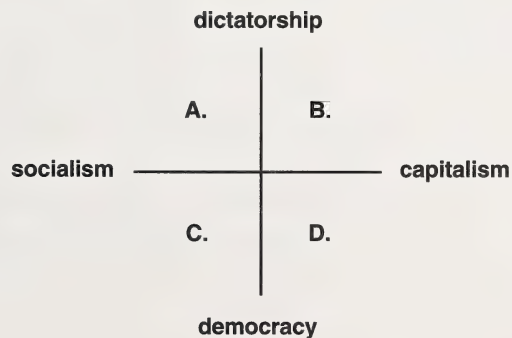
Activity 1: Socialism in Practice

The three countries shaded in the following map – Sweden, China, and the former USSR – have used some elements of socialism in their economic systems.



As you have seen, socialism is primarily an economic philosophy. Its goals of social welfare, cooperation, and equality are often in opposition to the individual initiative, self-advancement, and self-reliance of capitalism.

It is very important to understand two points. First, no country completely utilizes one economic system. Nations tend to lean to one side or the other, but still make use of some elements of the other side. Second, and most importantly, no economic system can ever stand entirely on its own. Whatever system is chosen, be it capitalist, socialist, or some combination of the two, it is always influenced by the political ideology of the respective nation. For this reason, there are combinations of dictatorship and capitalism or socialism, and the same for countries following democratic principles.



Command economy: an economic system that makes use of tight political and economic control and utilizes a highly centralized decision-making process and government ownership of all the means of production

The Command Economy

Dictatorial socialism (Quadrant A) is often called the **command economy**. It has been used in both the former Soviet Union and the People’s Republic of China, as well as in a number of other nations. The command economy makes use of tight political and economic control by a single political party. Economic decisions reflect the priorities of the party in power.

The command economy, in its attempt to promote the good of all, utilizes a highly centralized decision-making process. Since nearly all the means of production are state owned, the government makes most economic decisions. The answers to the three basic economic questions of what to produce, how to produce it, and who gets what share of the production, are provided by the government or its authorities.

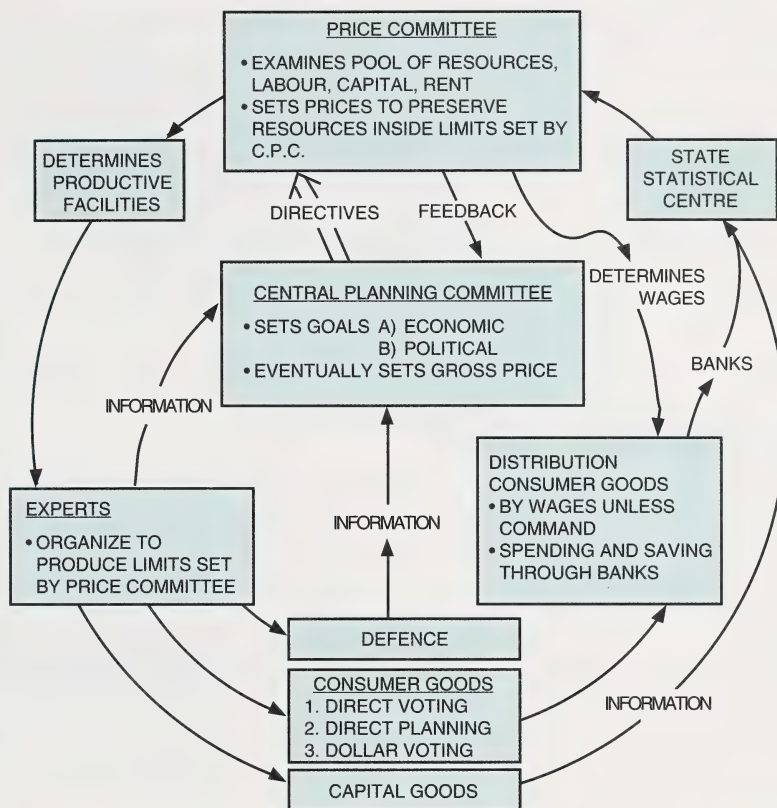
The Command Economy

Public Sector		Private Sector	
Law and Order			
Post Office			
Banks			
Health Care			
Transportation			
Industries			
Utilities			
Mines			
	Stores		
	Farming		

Central planning authority: a committee given the responsibility of planning the nation's economy, from determining economic direction to setting targets and quotas for production

A **central planning authority**, under the direction of the party in power, is given the responsibility of planning the nation’s economy. It is the job of this committee to determine such things as the capacity of the nation’s economy, how to use available resources and production facilities, and how to best utilize the labour force. Once these types of decisions have been made, a plan is formulated. The details of the plan are then passed on to other specialized committees for further examination and input.

This centralization means the state planning committee allocates all investment capital, sets every price and production goal, and controls all foreign trade. Thus, farmers must produce a given number of tons of grain, miners must mine a given number of tons per day, and factory workers must produce a given number of units.



1. What is meant by the statement “economic decisions are often political decisions”?

2. In a command economy, what is the role of government?

3. What role does the central planning authority play in a command economy?

4. What are some of the possible benefits of centralized decision making?

5. Why might consumer products be low priorities in a command economy?

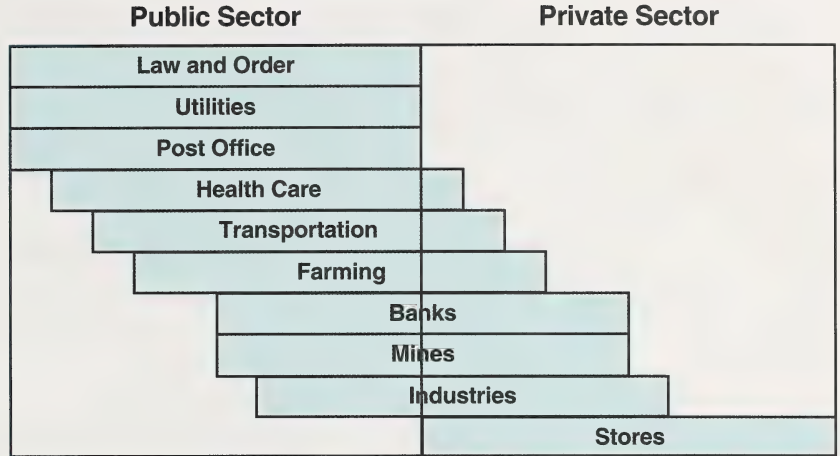
Check your answers by turning to the Appendix, Section 2: Activity 1.

Democratic Socialism

Democratic socialism (Quadrant C) stresses the belief that improved economic and social conditions can be achieved through reforms brought about by democratic means. They reject the need for revolution and a dictatorial political system to achieve economic gains. This revisionist form of socialism is used extensively in Sweden, and components of it are visible in most Western democracies such as Canada.

Decision making in this system is much more decentralized than in the command system. Under democratic socialism, most economic decisions are left up to individuals. Thus, much of the economy in this type of nation remains in private hands under the control of the individuals involved.

The government does get involved by taking over certain companies. These companies are usually those that provide essential services, particularly in the areas of transportation and public utilities, such as heat and power.



Indicative planning: strategic planning providing guideline forecasts to business and industry that indicate economic trends. These can be used, or not used, by the enterprises.

Monetary policy: having to do with the amount of money in circulation, interest rates, etc.

Fiscal policy: deals with government spending and taxation

Social services: activities that promote the well-being of the community, such as medical services and welfare

The government may also provide guidelines for industry. This **indicative planning** furnishes forecasts and trends which industry may, or may not, use. Influence can also be exerted through the **monetary policy** and **fiscal policy** of the nation.

The area where the government of a democratic socialist nation involves itself most extensively is in distribution – who gets what share of production. Its goals are full employment and freedom from poverty. There are attempts to equalize incomes, and to provide extensive universal **social services**. Because of this emphasis, such a nation is often referred to as the “welfare state.”

6. Why is decision making considered decentralized in a democratic socialist system?

7. What is the role of government in a democratic socialist system?

8. Why do you think this system appeals to many people?

As one can see, the political ideology operating in a particular country has a significant impact on its economic system. Some use the strict control and regulation of the command system. Others employ a system of less control which still stresses collectivist aims.

9. Why would some politicians choose socialism over capitalism?

Check your answers by turning to the Appendix, Section 2: Activity 1.

You will now examine examples of dictatorial socialism as used in two countries. Each example is slightly different, yet similar in many ways. Both nations made use of ideological, one-party dictatorships, and each used, to varying degrees, a command economic system. The first example will deal with the former Soviet Union under Lenin and Stalin. The second example looks at the People's Republic of China under Mao Tse-tung.



Activity 2: The Economic Policies of Lenin and Stalin

Do either Part A or Part B. To do Part B you require access to video equipment and the videotapes *The Red Tsar* and *Stalin and the Modernization of Russia*.

Part A

Lenin and Dictatorial Socialism

Vladimir Ilich Ulyanov, or Lenin, was born in Russia in 1870 to a well-off, intellectual family. He was expelled from university for revolutionary activity. After moving to St. Petersburg he completed his law degree.



Around 1890, Lenin came across Marx's ideas and began his revolutionary activity. After being arrested and spending a year in prison, he left Russia for Switzerland. In 1917, he, along with Trotsky, was smuggled back into Russia by the Germans with the hope they would lead a revolution that would pull Russia out of World War I. He led the October Revolution, 1917, and seized power. He died on January 21, 1924, after a stroke.

Lenin was the founder of the Communist Party and the Soviet Union. He took Marxist theory and put it into practice. Leninism is Marxism applied to the political and economic systems of a nation. Lenin overthrew the government of Russia, established a dictatorship, and introduced socialist economic principles.

Initially, Lenin seized all the means of production in the name of the people, took the land from the landowners and gave it to the peasants. He also took control of the railways, banks, and all foreign trade.

With this completed, Lenin faced the problem of rebuilding the economy. He pushed for organized control of production and distribution. He called on the workers to increase productivity, to develop large scale industries, and to be more disciplined and efficient.

In the spring of 1918, those opposed to Lenin's policies started a civil war, with the aid of forces from America, Britain, France, and Japan. This civil war led to a drastic policy known as **war communism**. Under this policy, peasants were forced to give up surplus crops to feed Lenin's army, the Red Army. Factory workers were told where to work. Factories employing more than ten workers were nationalized.



War communism: during the Russian civil war, Lenin asked the people to make sacrifices for the war effort such as giving up extra farm produce

New Economic Policy: a plan devised by Lenin whereby the state maintained ownership of major industries, etc., but allowed some private ownership in agriculture, small factories, and the retail trade. Profit making was allowed.

Kulaks: rich farmers under Lenin's N.E.P.

Lenin's communist forces were successful, but the cost was high. Millions of people were killed during the war, and millions more faced starvation. The economy was devastated. Most factories were non-operational, the railway system had collapsed, and there were shortages of materials everywhere.

Lenin saw the need for drastic action. Therefore he implemented the **New Economic Policy**, or N.E.P. The plan called for a temporary retreat from socialism and a return to some capitalist principles, such as individual incentive and profit-making.

Peasants were encouraged to grow more food. The surplus requisition system was replaced by a state tax to be paid in food stuffs. Any excess could be sold in private markets for profit. Rich farmers under this system were called **kulaks**.

Private enterprise in the retail trade was allowed. Thousands of small traders known as *nepmen* sprang up. In industry, factories employing less than twenty workers were returned to private hands.

Lenin saw these moves as only a temporary setback to socialism. He retained government control of the large factories, heavy industry, banks, railways, and foreign trade.

By 1924, food production and industrial output had risen dramatically. Unfortunately, in January of 1924, Lenin died and the USSR was once again in turmoil.

1. What components of Marxist theory did Lenin implement?

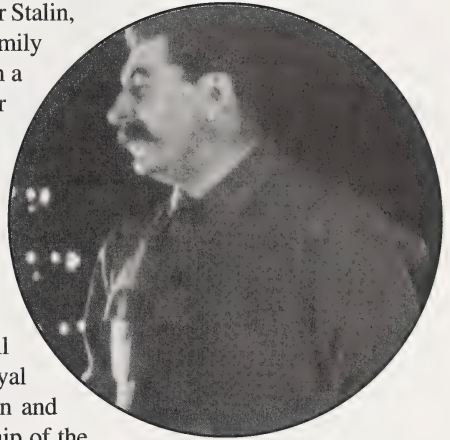
2. What was *war communism*?

3. What capitalist elements was Lenin forced to accept?

Check your answers by turning to the Appendix, Section 2: Activity 2.

Stalin and Dictatorial Socialism

Joseph Vissarionovich Dzhugashvili, or Stalin, was born in Russia in 1879, into the family of a shoemaker. He was expelled from a priesthood seminary in 1899 for radicalism. In 1904, he joined the **Bolsheviks** and later became editor of the party newspaper *Pravda*. During the revolution he was a relatively unimportant figure. Under Lenin he became party general secretary in 1922. He gained gradual control of the secretariat by filling all vacated offices and positions with loyal followers. Upon Lenin's death, Stalin and Trotsky became rivals for the leadership of the USSR.



Bolsheviks: an extremist political group prior to 1917

Led by Lenin, they seized power in the October revolution of 1917.

Bolshevism: another name for Russian communism

Socialism in one country: Stalin's belief that before socialism could be spread throughout the world, the Soviet Union had to become an industrial fortress

Quota: the share of production assigned to each worker or plant

Gosplan: the Soviet central planning agency

Stalin won the power struggle by giving the people a more attractive alternative than Trotsky's permanent revolution. Between 1925 and 1953, Stalin was absolute ruler of the Soviet Union. He was ruthless in his attempt to make his country into an industrial fortress and nationalistic state. The "Man of Steel" died in 1953.

Stalin offered the people "**socialism in one country**," rather than the worldwide revolution promoted by Marx, Lenin, and Trotsky. To Stalin, socialism in one country meant building the USSR into an industrial giant.

Stalin's economic philosophy centred around control and regulation. His economic plan was a total rejection of Lenin's N.E.P. Stalin utilized central planning, five year plans, forced industrialization, and the collectivization of agriculture.

The goal of Stalin's five-year plans was to expand industry and collectivize agriculture. The whole economy was to be run like one big company, with Stalin at the head. Production goals were established and **quotas** were set. Then **Gosplan**, the state planning commission, would arrange for the production of every item. They would collect information from other committees and coordinate all decision making. It was Gosplan's job to ensure a continuous supply of raw materials and smooth paths of distribution. Under Stalin, production targets were often impractical and nearly impossible to meet. But through the use of force, progress was made.

In the first five-year plan, from 1928–1932, almost all investment went into heavy industry. Stalin saw heavy industry as the key to industrial power. Thus it was Stalin's belief that before factories could produce goods, the factories themselves had to be built, equipped, and powered. Therefore, primary emphasis was placed on energy supplies, construction materials, and machine tools. Each of the heavy

Collectivization: to transfer from private to public ownership, particularly in the area of agriculture

industries of coal, iron, steel, and oil had extremely high targets set for them. Production increased, many new factories were built, and targets were achieved ahead of time. Subsequent plans continued to emphasize heavy industry.

In 1929, Stalin declared that all farms were to be **collectivized**. Individual farms were to be merged into large collective, or state, farms where the land was jointly owned and farmed. The kulaks, rather than give up their land, poisoned their wells, killed their livestock, and destroyed their crops. Stalin reacted with ruthless force. As many as five million kulaks who resisted collectivization were either executed or sent to prison camps in Siberia. Millions more starved from the famine that resulted and it took many years for Soviet agriculture to recover.

Still, Stalin did bring the former Soviet Union “kicking and screaming into the twentieth century,” particularly in the industrial sector.

4. What was “socialism in one country”?

5. Lenin’s N.E.P. and Stalin’s economic plan both aimed at modernization, but how did they differ?

6. How did Stalin use state planning to achieve economic goals?

7. a. What was forced industrialization?

- b. What was collectivization of agriculture?

Check your answers by turning to the Appendix, Section 2: Activity 2.

Part B

If you have the appropriate video equipment it is suggested you view the videotapes *The Red Tsar* and *Stalin and the Modernization of Russia*. These twenty minute videos outline the economic strategies of Lenin and Stalin during their respective periods of leadership. After viewing the videos, answer the following questions.

8. What economic problems existed in the Soviet Union in 1921?

9. Why did Lenin give up war communism?

10. a. What was the aim of Lenin's N.E.P.?

- b. What were its characteristics?

11. How did Stalin outmanoeuvre Trotsky for power in the USSR?



12. a. What was “socialism in one country”?

- b. Why did it appeal to the people?

13. Why did Stalin think that forced industrialization and collectivized agriculture were necessary?

Check your answers by turning to the Appendix, Section 2: Activity 2.

Activity 3: The Soviet Economic System of the 1970s

The highly centralized economic system designed by Stalin built the foundation of Soviet economics. Still, not all of Stalin’s methods could last forever.

As the Soviet economy grew, decision making became a more complex task. The system no longer called for marshalling large amounts of labour and capital but required using what they had more efficiently. Workers were less willing to always put state interests ahead of their own. Consumers were more demanding, calling for more consumer products.

Even with these new demands, those in charge were slow to change. The economy remained a state monopoly, controlled by the Communist party. Economic decisions continued to reflect the objectives of the government. The state maintained its ownership and control of the means of production, and workers remained public employees.

The economy was still based on elaborate plans, both long and short range. The long-range plans of up to twenty years established general directions for the economy. The shorter, more widely known, five-year plans set out specific targets for all state enterprises, both industrial and agricultural.

Gosplan, the central planning committee, set the policy for up to 350 000 enterprises. Its job was to put the economic plan into practice. Once the targets were set, Gosplan contacted the ministries in charge of each enterprise. The ministries would then discuss the plan and its targets with the managers of the various enterprises to determine what was needed to fulfil the plan. With this completed, the ministries reported back to Gosplan which would then coordinate all the demands of the various ministries. Gosplan made any alterations needed, then passed the information to **Gossnab**. Gossnab allocated all the needed commodities to the various enterprises. This included raw materials, as well as numbers of workers. Meeting the plan's targets became the only indicator of success.

The industrial sector's stress on higher unit production was often at the expense of quality. Rewards were based on fulfilment of the plan's quotas rather than profit. Workers and managers received bonuses for achieving the quota. Thus, managers were reluctant to be innovative because they feared not reaching their targets.

The agricultural sector, which was in such conflict during Stalin's leadership, continued to be a problem. The collectivization done under Stalin remained in place. Despite huge investments of capital, the agricultural sector remained troubled. About 23% of the entire labour force had been involved in this sector. Each collective farm distributed profits to the members according to the work they had done. Each task was given a monetary value.



Prices of products were also regulated by a **prices committee**. The government regulated the influences of supply and demand by pricing high those things they felt were luxury items and pricing low those they felt were necessities. Soviet consumers were free to buy anything that was produced and own as much of those things as they wished. Thus, **consumer sovereignty** existed, but was regulated.

One can see that some modifications were made. The force and terror used by Stalin were not as evident, but the basic elements he established remained.

Gossnab: the Soviet agency which allocated all the needed commodities to the various enterprises

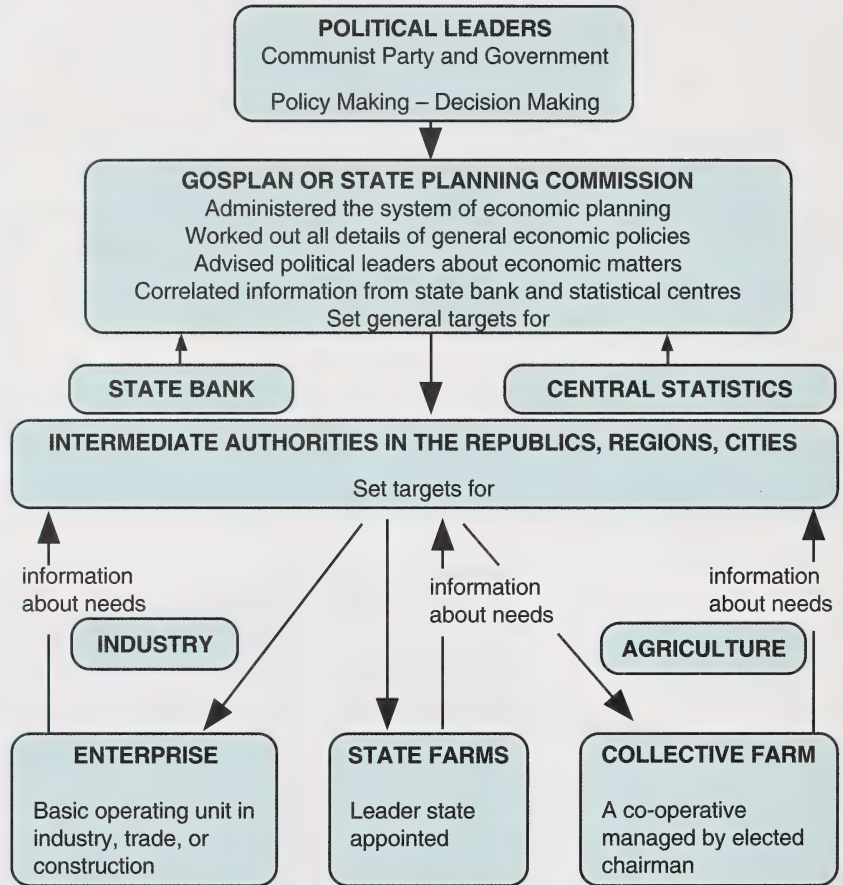
In 1990 19% of the Soviet Union's labour force was involved in agriculture.

Prices committee: a committee that set all prices in the Soviet Union prior to production

Consumer sovereignty: consumers have the freedom to purchase any goods they choose, as long as they can pay for them

Command System – Public Enterprise

Central Planning in the Former USSR



Small private enterprises were encouraged, but had to

- be family business or self-employed
- have no outside paid employees
- sell on the open market

Small private agricultural plots

- were significant in terms of production
- sold produce on the open market

1. Centralized economic planning in a developed economy is an extremely complex task. Why?

2. Is it possible for a centralized system to determine the total capacity of its economy? Why?

3. What role did Gosplan play in economic planning in the USSR?

4. How did the term *incentives* apply to the system described?

5. How did the Soviet government regulate consumer sovereignty?

Check your answers by turning to the Appendix, Section 2: Activity 3.

Activity 4: Dictatorial Socialism in China



Mao Tse-tung was born in China in 1893. He was the son of a peasant. He attended a teacher's training college and later became a library assistant at Peking University. In the early twenties, he organized peasant and industrial unions. In October, 1949, he became chairman of the People's Republic of China. It was said that he altered European Marxism to an Asiatic form. He saw his job as

Chinese leader as one of consolidating communist political control, generating economic reform, and remodelling China into a true socialist state. He received early support from Stalin but split with the Soviets over their revisionist policies in the sixties. He was to the Chinese people Marx, Lenin, and Stalin all in one person. He died in September of 1976.

Do either Part A or Part B. To do Part B you require access to video equipment and the videotape *One Man's Revolution: Mao-Tse-tung*.

Part A

Mao Tse-tung and Dictatorial Socialism

The government of China in 1949, led by Mao Tse-tung, in many ways modelled itself after its Soviet predecessor. It maintained ruthless control and party members were placed at every level of power.

The new government was confronted with many problems, but possibly the most important was the rebuilding of a war-torn economy. For years, China had been ravaged by war. People were starving and most of the industry had been destroyed. The government quickly began a program of reconstruction. Railways were repaired, as were irrigation dikes. Health care and sanitation programs were improved. The state took control of heavy industry, banks, and foreign trade. The remainder of the economy was left in private hands.



***Land Reform Law:** 1950, Mao redistributed the land to the peasants, allowing private ownership*

***Mutual aid teams:** the first step toward collectivization of agriculture in China. Seven to ten families shared labour, tools, and animals, but maintained private ownership of land.*

***Great Leap Forward:** Mao's program to increase production in both agriculture and industry, and to get everyone involved in the program*

***People's Communes:** large state farms of 50 000 peasants, formed in China*

Mao, possibly influenced by Lenin's act of granting land to the Russian peasants, moved quickly to bring in land reform. The **Land Reform Law** of 1950 redistributed land taken from the farmer landowners to the peasants. In 1952, Mao moved cautiously toward collectivization, not wanting to duplicate the errors of Stalin. **Mutual aid teams** of seven to ten families shared tools, labour, and animals; but maintained their individual ownership of the land.

In 1953, there was further evidence of the Soviet influence on the Chinese economy. The Chinese adopted centralized planning and implemented their first five-year plan. Nearly 70% of investment went to heavy industry, with very little going to agriculture. Small retail business remained in private hands. Much of China's early economic success was due to Soviet aid.

Between 1953 and 1958, agriculture was further collectivized. At first small cooperatives were formed to farm the land collectively with each peasant still maintaining personal ownership. These cooperatives were then expanded into larger operations with 100 to 200 families working larger tracts of land. In these larger operations private ownership of land was discouraged. By the end of 1954, 11.5% of peasant households had been collectivized. By 1955 the number was 65% and by 1956 it was 99%. Almost every peasant family was part of a People's Commune by 1958.

In 1958, Mao decided that mistakes had been made in the first five-year plan. There had been too great an emphasis on industry, at the expense of agriculture. The stress on heavy industry had produced iron and steel, but not the tools and machinery that were really needed. He also felt that Soviet centralized planning was not appropriate for China.

These thoughts led Mao to implement the **Great Leap Forward**. He believed it was the opportunity for everyone to take part in the industrialization of China. It was an attempt to increase production in both industry and agriculture, and to reduce the differences between the two.

Although China lacked the technology and skilled technicians needed to accomplish their goals, they had unlimited manpower which they were prepared to use.

Small and medium sized factories were built in the countryside. Local production facilities were developed to increase the production of steel, fertilizer, and cement. Huge reservoirs and irrigation canals were constructed. Land was reclaimed, roads and bridges built, and trees planted, mostly by human hands rather than with machinery.

The large cooperatives in agriculture were merged into even larger units known as **People's Communes**. These communes housed as many as 50 000 peasants, all sharing in the tasks. Private ownership of land was abolished.

By 1973, China had built a large heavy industry sector. They had developed and tested the atomic bomb and were increasing trade with non-communist countries.

1. How was the Chinese economic development influenced by the Soviets?

2. How was Mao's approach similar to that of Lenin?

3. How did Mao's approach to the collectivization of agriculture differ from Stalin's approach?

4. What changes in direction were evident in the Great Leap Forward?

5. What conclusions can be drawn regarding agricultural collectivization in China?

Check your answers by turning to the Appendix, Section 2: Activity 4.



Part B

If you have the appropriate video equipment, it is suggested you view the videotape *One Man's Revolution: Mao Tse-tung*. This tape is about twenty minutes long and outlines the rise to power of Mao Tse-tung. It provides information on a number of his economic programs. After viewing the videotape, answer the following questions.

6. Why did Mao feel that the peasant was the key to revolution in China?

7. Why did Mao place so much emphasis on communes to solve China's economic problems?

Check your answers by turning to the Appendix, Section 2: Activity 4.

Activity 5: Sweden – The Welfare State

The economy of Sweden is very different than the command systems of Lenin, Stalin, or Mao. Sweden follows democratic principles and it is not centrally planned.

In Sweden, the Social Democratic party was in power for most of the years between 1932 and 1976, except for a brief period in 1936, and it also held power from 1982 to 1991. This provided stability for the Swedish system. The philosophy of the **Social Democrats** has been based on attempts to ensure full employment, to lower inflation, and to allow market forces to determine the direction of the private sector. In order to achieve these goals, the Swedish government has made use of a tight fiscal policy, minimal intervention into the private sector, a wage policy to narrow wage differences, and job creation and recruitment schemes.

The Swedish government has allowed much of the economy to be run by the private sector. Approximately 85% of the economy is in private hands. Agriculture, shipping, textile production, banking, automobiles, steel production, and the retail trade are for the most part privately owned.

Social Democrats: a political party in Sweden which promotes the philosophy of democratic socialism

Sweden's public sector is the largest of any industrial economy. The government controls portions of the national forests, waterpower, and buses. It also controls the majority of iron ore, railways, and atomic power, operates the telephone system, and regulates the sale of liquor and tobacco.



The government was involved in other areas of the economy as well. It fixed agricultural prices up until 1991 when a five-year reform program was started to eliminate subsidies and price regulations and to allow consumer demand to determine production volumes.

The government provides interest subsidies to help various people obtain better housing. A system of rent controls was established in 1942 but was abolished in 1975.

Various companies receive government aid for state-financed research and to expand their production to create jobs for people.

Although the Swedes do not use central planning, they use an alternate form known as indicative planning. The government formulates plans that forecast trends in the economy. These plans are provided to the private sector to aid in their planning. Since there is a great deal of cooperation between government, business, and labour, one of the negative elements of capitalism is reduced: cooperation between the employee and employer decreases confrontation. Improved relations should lead to increased production. This philosophy has resulted in one of the most peaceful labour records in the Western world.

The 1977 **Act on Co-Determination** gave workers an increased voice in the economic decision making in Sweden. They became involved in production planning, setting their own goals, duties, work pace, and even in marketing decisions. A more recent development known as **wage earner funds** is further evidence of business/labour cooperation. Basically, businesses pay an employment tax and a tax on profits. This money goes directly to the unions for the purchase of shares in the respective companies.

Act on Co-determination: 1977, gave workers an increased voice in economic decision making, from production planning and setting goals to marketing

Wage earner funds: Industry in Sweden is required to pay an employment tax plus a tax on profits to the unions to be used to purchase shares in the companies.

Cradle-to-grave welfare state: provision of extensive social services for the prenatal through to pensioners

Progressive taxation: the more money a person makes, the higher percentage that person pays to taxation

The Third Way: 1982, a Swedish economic program aimed at keeping unemployment and inflation in check and instituting tax reform

Because the Swedish government provides such comprehensive social services, it has been labelled the “**cradle-to-grave welfare state.**” These services include free prenatal care, extensive maternity benefits for both mothers and fathers, free day-care and nursery schools, and generous family allowances. Older children receive free lunches and free university education. All people receive free medical and dental care. Workers receive subsidized lunches and bus tickets and are guaranteed five weeks of paid vacation per year. Senior citizen have pensions tied to the cost of living; meaning that if the cost of living goes up, pensions go up.

In order to pay for all these benefits, Swedes pay the highest taxes of all industrialized nations. They have used steep **progressive taxation**. The more money a person earns, the more tax that person pays. The average rate of taxation was 50% of net earning. This rose to a rate of 70% for those earning the most money. This economic system has provided Sweden with one of the highest standards of living in the world. Until recently, they have maintained low levels of unemployment and have kept inflation under control.

Despite all this success, the Swedish economy experienced a drastic downturn in 1982. In order to combat this trend, Sweden implemented what was called the **Third Way**. Its main aim was to keep unemployment and inflation in check and institute tax reform. The Third Way implemented a number of new procedures.

The government has tried to increase employment by creating jobs, instituting retraining programs, and increasing worker mobility. The objective has been to keep workers in touch with the job market. Also unemployed workers can lose unemployment benefits if they refuse a job or job re-training.

In order to check inflation the government has devalued their currency, attempted to cut the national debt, has stopped funding failing companies, and has encouraged increased personal saving.

Tax reform has simplified the schedule, abolished some deductions, limited the top rate, and provided incentives to save.

It is apparent that the Swedish government has shifted its position on public services. Now it seems it is promoting greater efficiency in public services rather than expansion and tax reform to control inflation. Still, unlike any other nation, Sweden has had the chance to experiment peacefully with socialism. They continue to share power, promote human dignity, welfare, and equality through socialization.

1. What components of democratic socialism are illustrated by Sweden?

2. How does the size of the private sector compare to that of the public sector in Sweden?

3. What kind of planning is used in Sweden, and how is it used?

4. a. What are the *Act on Co-determination* and *wage earner funds*?

- b. How have these affected worker-employer relations?

5. Why is Sweden called the cradle-to-grave welfare state?

6. a. What is progressive taxation?

- b. How does it equalize incomes?

7. a. What was the Third Way?

- b. What were its aims?

Check your answers by turning to the Appendix, Section 2: Activity 5.



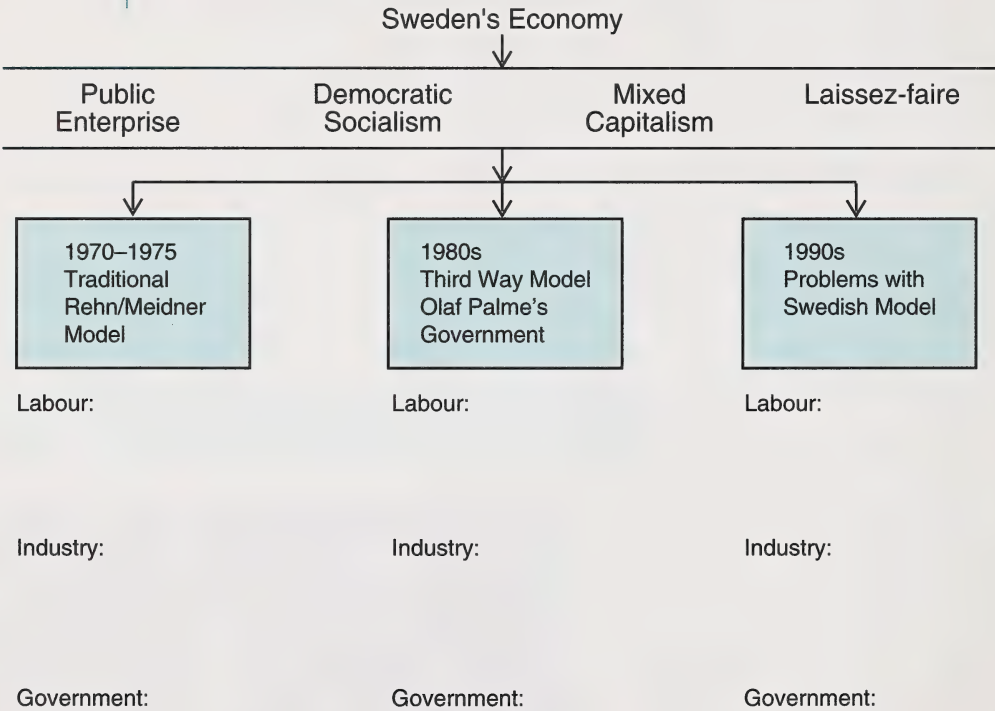
Activity 6: The Swedish Economy

Do either Part A or Part B.

To do Part B you require access to video equipment and the videotape *The Swedish Solution*.

Part A

1. Fill in the retrieval chart that follows using the headings provided. You will have to find answers to fill in the information for the 1990s by using media sources. Section 2: Enrichment has an article on Sweden.



Check your answers by turning to the Appendix, Section 2: Activity 6.



Part B

If you have the appropriate video equipment, it is suggested that you view the videotape *The Swedish Solution*. This sixty minute videotape outlines various components of the Swedish economy of the early 1980s. Once you have finished viewing the tape, answer the following questions.

2. What dilemma did Sweden face in the early 1980s?

3. a. Describe democratic socialism.

- b. Does it emphasize individual freedom or the common good in its political and economic systems?

4. What is the Swedish attitude toward high taxes?

5. What changes are taking place in management-worker relations at Volvo and Saab?

6. What have been the effects of the efforts of the Office of Equal Opportunity?

Check your answers by turning to the Appendix, Section 2: Activity 6.

Follow-up Activities

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help activities. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment Activities.

Extra Help

There are two Extra Help activities in this section. It is suggested you do both of these activities because one deals with the command economy while the other deals with democratic socialism.

1. Answer the following to review the features of a command economy.
 - a. Draw a diagram illustrating the planning process of the former Soviet Union's economy.

b. Complete the following chart.

	Explanation	Justification
Centralized Planning		
State Ownership		
Coordination of Resources		
Decentralized Decision Making		
Conformity of Purpose Between Political and Economic Bureaucracies		

2. Fill in the following retrieval chart as it relates to Sweden. Provide examples from the Swedish economy to illustrate each of the essential elements of democratic socialism.

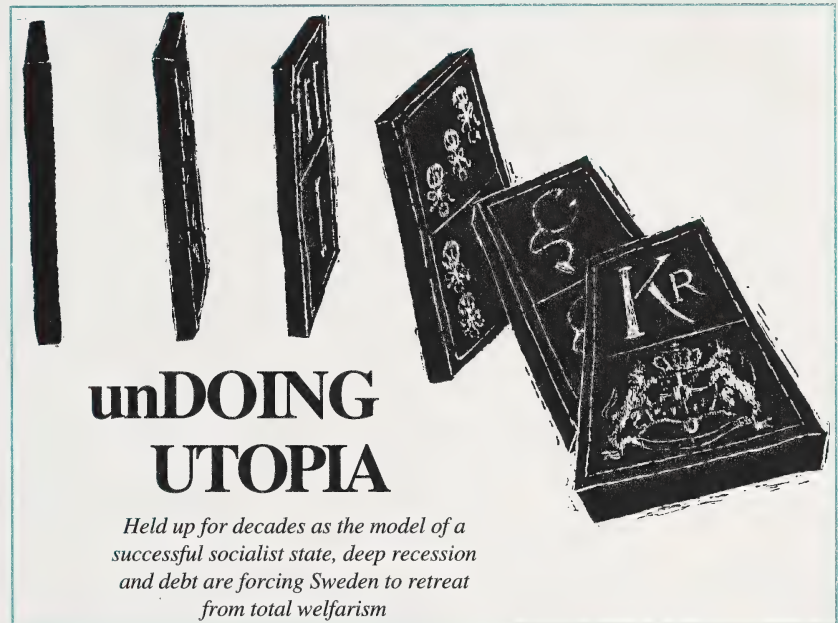
The Essentials of Democratic Socialism

Collective Interests Are More Important Than Interests of the Individual	
Equality	
Economic Cooperation	
Government Ownership of Key Industries	
Private Ownership of Industries	
Comprehensive Social Welfare System	
Indicative Planning	
High Progressive Taxation	

Check your answers by turning to the Appendix, Section 2: Extra Help.

Enrichment

 Undoing Utopia



Year after annoying year, lesser folk around the world had to look with envy at those wonderful Swedes. They lived the longest. They were the fittest. They had the world's highest standard of living. Their cradle-to-grave welfare system almost guaranteed full employment. "Free" post-secondary education was available to all. So were health care and pensions. The list went on endlessly.

Was there a single cloud over this Scandinavian paradise? Well, maybe one little one: at a top rate of 70%, Swedes paid the highest personal taxes in the industrial world.

It all came about through what the Swedes used to call "the third way" – not communism, not totally capitalism either, but something in between. The Social Democratic Party brought about the miracle. Until 1991, it was in power for all but six of the previous 59 years.

The big corporations such as Volvo and Saab, and the big trade unions became the other two partners in a tidy agreement with the Social Democrats which worked like a charm for many years. Starting in the 1930s, business, labour, and government made a bargain – no strikes in return for high wages and social benefits. In the compact country, with its eight million people, this system became known as the "Swedish model." It was imitated but not equalled by other social democracies, including Canada.

By the end of the 1980s, however, there were clear signs that the Swedish utopia was in trouble. The reasons were complex. The country's economy was based on heavy industry which declined in importance as new knowledge-based business overtook it globally. Sweden, while it hasn't yet joined the 12-member European Community (EC), in

Sweden became part of the EC as of January 1, 1995

1991 joined Norway, Finland, Iceland, Austria, Switzerland, and Liechtenstein to become part of a free-trade area which includes the EC. Competition then increased as protective barriers were dropped.

Third, and most important, even as a worldwide recession was approaching, the Social Democrats were indulging in a final orgy of spending. By the '90s, the state employed almost four workers in ten, double the mid-'60s figure (Canada's public sector employs about two out of ten workers). Generous vacations were stretched further to 27 days a year. Pay while on sick or parental leave was 90% or more. Taking time off paid so well that absenteeism was a large and chronic problem, forcing Volvo, for example, to employ 25% more workers than it needed to be sure of a full staff on the job.

vative coalition government headed by Carl Bildt and his Moderates. Sometimes supported by the Social Democrats, now in opposition, Mr. Bildt has since been forced to make cuts in Sweden's social programs which have sent shock waves through the nation.

With the budget deficit running out of control, in April 1993 Prime Minister Bildt and his finance minister, Anne Wibble, proposed another \$11 billion in spending cuts over those of the previous two years. For example, the following are either proposed or already in effect: dropping two vacation days; raising the retirement age from 65 to 66; cutting compensation for sickness and parental leave from 90% to 80%, with some low- or no-payment days; charging Swedes for more of their health-care costs (they have always had to pay a \$15 user fee for a visit to a

HAVE WE GONE TOO FAR?

In some countries, governments pay for an amazing array of services.

- Most unionized and salaried workers in Germany can get extra vacation money to help pay for the expenses of taking time off.
- In Britain, the government will pay to have tattoos removed as often as requested.
- Also in Britain, some alcoholics on welfare can get extra money with which to buy booze.
- Workers at Daimler-Benz, in Germany, could get reimbursed for a child's First Communion outfit.
- In Britain, an unemployed insurance executive received \$2,750 a week to keep up mortgage payments on his \$1.5 million country mansion.

Such inefficiencies lowered productivity in export industries already shrinking through global recession and competition. The economy went flat with net losses each year since 1991 and Sweden fell into one of the longest and deepest slumps among developed nations. As the economic domino toppled, it knocked over the corporate and personal tax revenue domino vital to Sweden's generous social programs. The government could no longer pay for them all and was running big and growing deficits.

It was obvious to voters by 1991 that the "third way" engineered by the aging Social Democratic Party was no longer working. In elections that year, the Social Democrats were finally dismissed and replaced by a conser-

doctor or hospital).

GERMAN BELT-TIGHTENING

Until recently, Germany was one of the economic powerhouses of the world, but the cost of absorbing bankrupt East Germany and the recession have changed that. Now, Germans are watching some of their social programs being slashed just as people in the rest of the industrialized world have. Just before Christmas last year, the Bundesrat, (the upper house of Germany's parliament) approved cuts to unemployment benefits, child-support payments, and job-retraining programs.

Even this sort of nasty medicine is hardly enough to get the Swedish economic cripple on its feet again. Commercial real estate has nosedived

as new office buildings stand empty. Two of Sweden's five biggest banks are on government life-support systems, done in by loans gone sour. Unemployment, once hardly an entry in the Swedish dictionary, is on the rise and, including those swamping the retraining centres, approaches 10%. So is inflation, pushed up by vain attempts to defend the Swedish currency unit, the krona.

As 1993 drew to a close, leaders of all the main political parties drew up a five-year plan agreeing to chop state welfare programs further while delaying proposed tax cuts. Still further economies added later resulted in a package which now includes postponement of cuts in wealth taxes, the transfer of health and sickness insurance from the state to the private sector, and cuts in foreign aid. The object, the leaders said, was to make

Sweden competitive enough again to earn membership in the European Community.

There is much hand-wringing about the consequences of joining the EC. The Community's present 12 members generally have less generous social programs than the Swedes. Rutger Lindahl, director of the Swedish Institute of International Affairs says: "People think we will have to adjust to a society that's not as advanced...sliding backwards into Europe."

Yet, look closely at the Swedish social welfare system and you find that, while pruned back a bit, it is still impressive enough. Swedes, however, have been brought up against the hard facts of living too high in a competitive world. The pruning saw is starting to make the famous "Swedish model" look a lot more like the other countries of Western Europe.¹

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1. Based on the article "Undoing Utopia," what problems were identified in the Swedish economy in the 1990s?

¹ R/L Taylor Publishing Consultants Ltd. for the article from *Canada and the World*, "Undoing Utopia," by Charles White, March 1994. Reprinted by permission of *Canada and the World*, Oakville, Ontario.

2. What measures has the Swedish government taken to try to remedy some of the country's economic problems?

[illegible]

Check your answers by turning to the Appendix, Section 2: Enrichment.

Conclusion

The command economy and the welfare state are two socialist economic systems. Each implements socialist theory in different ways.

The command systems of Lenin, Stalin, and Mao incorporated elements of Marxist theory. Those systems stressed state ownership and control of the economy.

Lenin nationalized all the means of production, but was forced to backtrack and allow some capitalist practices during his reign. Stalin reversed Lenin's N.E.P. and brought in centralized planning. He forced industrialization and collectivized agriculture. Many of Stalin's policies endured through to the eighties. Mao, on the other hand, cautiously brought in his socialist policies. He concentrated much of his effort on agriculture and made extensive use of China's labour force to put his policies into practice.

The welfare state of Sweden utilizes components of Bernstein's social democracy. It has been a social democracy for more than fifty years. The Swedes have attempted to combine the best parts of the market system with some amount of government regulation. The stress has been in the areas of eliminating poverty, equalizing incomes, and providing extensive social services.

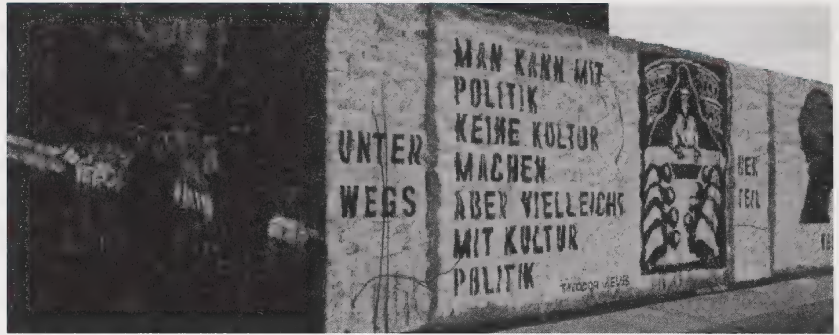
Even with the successes of these two systems, many socialist countries are looking for new methods to improve their economies. In the next section, economic reforms in the former Soviet Union and China will be examined.

Assignment
Booklet

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for this section.

The Changing Face of Socialism



The preceding picture is of the Berlin Wall which divided East and West Germany from 1961 until it was taken down in 1989. Since 1989 there have been many changes throughout the world. These changes include the reunification of East and West Germany, the collapse of communism in Eastern Europe, the collapse of the Soviet Union, and the end of apartheid in South Africa.

Why were there so many changes in some places and few changes in other places? Most often those things that are unable to adapt to new circumstances face extinction. Socialism is at that point. Elements of it must change if it is to remain in use. Socialist leaders throughout the world have been quick to see this. As a result, they are now turning to capitalism and its stress on the individual and market forces for help in rejuvenating stagnant economies. There seems to be renewed interest in the age-old system of capitalism.

This section will present a number of reasons why socialist nations are moving to capitalist principles. The major problems of the centrally planned economies will be identified. Two case studies, the former Soviet Union and the People's Republic of China, will be presented to illustrate how socialist economies are incorporating elements of capitalism.

In this section you will learn

- why socialist countries are turning to capitalism
- what privatization is, and how it is being used by socialist nations
- some of the problems of a centrally planned economy
- some of the elements of the former Soviet economic reform program, *perestroika*
- some of the elements of the Chinese economic reform program, *gai ge*

Activity 1: A Lesson in Economics



Once upon a time there was a little Red Hen, who scratched about and uncovered some grains of wheat. She called her barnyard neighbours together and said, "If we work together and plant this wheat, we will have some fine bread together. Who will help me plant the wheat?"

"Not I," said the cow.

"Not I," said the duck.

"Not I," said the pig.

"Not I," said the goose.

"Then I guess I will," said the Little Red Hen, and she did.

After the wheat started growing, the ground turned dry and there was no rain in sight.

"Who will help me water the wheat?" asked the Little Red Hen.

"Not I," said the cow.

"Not I," said the duck.

"Not I," said the pig.

"Not I," said the goose.

"Then I will," said the Little Red Hen, and she did.

She watered the ground, and the wheat grew tall into golden grain.

"Now," she said. "Who will help me reap this wheat?"

"Not I," said the cow.

"Not I," said the duck.

"Out of my classification," said the pig.

"I'd lose my aid to dependent children," said the goose.

"Then I will," said the Little Red Hen, and she did.



When it came time to grind the flour:

"Not I," said the cow.

"I'd lose my unemployment compensation," said the duck.

"Not I," said the pig.

"Not I," said the goose.

"Then I will," said the Little Red Hen, and she did.

When it came time to bake the bread:



"That's overtime for me," said the cow.

"I'm a drop-out," said the duck. "I never learned how."

"I'd lose my welfare benefits," said the pig.

"If I'm the only one that's helping, that's discrimination," said the goose.

"Then I'll do it myself," said the Little Red Hen, and she did.

She baked five loaves of fine bread, and held them up for her neighbours to see.

"I want some," said the cow.

"I want some," said the duck.

"I want some," said the pig.

"I want some," said the goose.

"No," said the Little Red Hen. "I can rest awhile and eat the five loaves myself."

"Excess profits!" cried the cow.

"Capitalistic leech!" quacked the duck.

"Company fink!" grunted the pig.

"Equal rights!" screamed the goose.

They hurriedly painted a picket sign and marched around the Little Red Hen singing lustily, "We Shall Overcome." And you know – they did.

When the farmer came to investigate the commotion, he said, "You must not be greedy, Little Red Hen. Look at the oppressed cow. Look at the disadvantaged duck. Look at the underprivileged pig. Look at the less-fortunate goose. You are guilty of making second-class citizens out of them."



"But – but," said the Little Red Hen, "I planted the wheat, and I watered it, and I reaped the grain. I ground the flour, and I baked the bread. I earned this bread!"

"Exactly," said the farmer. "That's the wonderful free enterprise system. Anybody in this barnyard can earn as much as he wants. You should be happy to have this freedom. In other barnyards you would have to give all five loaves to the farmer. Here you give four loaves to your suffering neighbours, and keep one for yourself! You should be grateful!"

And so they all lived happily ever after, including the Little Red Hen, who smiled and smiled, and clucked and clucked, "I am grateful. I am grateful. I am grateful!"

But her neighbours wondered why she never baked any more bread.

1. What ideas does this satirical story present that are used by some to argue against socialism?

2. In trying to make its point, how does the story overgeneralize?

Check your answers by turning to the Appendix, Section 3: Activity 1.

Activity 2: The Changing Face of Socialism

For many years people have debated about what the perfect society is, the best method to achieve it, and what role the state should play in its creation. Those who advocate collective ownership, equality, and governmental regulation of the economy tend to follow the path of socialism. Supporters of private property, individual initiative, and self-advancement believe in the capitalist philosophy.

Immediately after World War II it seemed like socialism and its philosophy was spreading to all corners of the world. Everywhere there were countries nationalizing industries and imposing regulations on private ownership. Socialism seemed to provide answers for the creation of a more just and humane society.

The 1980s and 1990s may be the era of capitalism. It is reemerging with renewed support. More and more countries are turning to capitalism and market-oriented economies to generate faster economic growth, jobs, and higher production. Many socialist nations' economies are being outperformed by the economies of countries who are primarily capitalist. The capitalist states are demonstrating higher growth rates than most socialist nations, many of whom are facing **recession**, and rising national debt. In many areas of the world the proportion of state ownership is dropping and there is more emphasis being placed on the individual within the economy. There has been a definite move towards **privatization** of the public sectors in many socialist nations and those others who employ socialist elements. In nations such as Britain, Argentina, Nigeria, Italy, and Mexico, numerous government-owned or sponsored enterprises are now being sold to the private sector. Other socialist countries are altering policies to promote private enterprise. The two largest socialist nations (the former Soviet Union and China) traditionally seen as models of socialist success, introduced capitalist principles into their economies.

***Recession:** a temporary slowing of business activity during a period when economic activity has generally been increasing*

***Privatization:** the sale of government-owned enterprises to the private sector*

1. Why are socialist nations implementing principles of capitalism?

2. What is privatization, and how is it being used in socialist countries?

Check your answers by turning to the Appendix, Section 3: Activity 2.

Activity 3: Major Problems of the Centrally Planned Economy

- The planners never seem to have sufficient information to develop effective economic strategies since there are simply too many economic facts for any one person or agency to handle.
- The system is drowning in paperwork. An incredible number of hours are wasted on writing and signing various letters and documents. It takes a very long time to get anything accomplished. The state planning agency interferes too often in business affairs with its constant demand for reports on the meeting of quotas.
- There are too many top planners. (There is one manager for every six workers.)
- The quota system has resulted in a drive for quantity, not quality. The quality of products is, therefore, substandard (especially consumer goods).
- The centrally-directed quota system has workers producing products people do not want, and not producing enough of what they do want.
- Factories have operated at losses because they know that the subsidy system will bail them out. There has been no incentive for efficiency.

- Selection/quantity of food, consumer goods, and housing is very limited.
- There are long lineups for food and consumer goods.
- When the planners make an incorrect decision, the effect can be disastrous because the plan is carried out on a national scale.
- Highly centralized plans are slow to respond to unforeseen changes.
- There has been little incentive to work hard and do a good job.
- The service industry has been grossly inefficient and ineffective.
- The collectivization of agriculture has been a dismal failure.
- In recent times there has been close to zero economic growth.
- The bonus system designed to increase efforts from factory workers has not been successful.

Hypothesize at least five solutions to the preceding problems.

[illegible]

Check your answer by turning to the Appendix, Section 3: Activity 3.

Activity 4: Economic Changes in the Soviet Union and China During the 1980s

In the 1980s both the Soviet Union and China had leaders who were trying to rejuvenate stagnant economies. The failure of a number of earlier economic policies led the Soviets and Chinese to look for new ways to achieve economic growth and success.

Although both countries followed Marxist-Leninist philosophy, each had taken a different road towards economic growth. Part of this could be attributed to the distinctly different cultures in the two countries. For example, in the former Soviet Union, reforms started in industry because the government felt that faster economic growth could be achieved in this sector. In China, reform began in the agricultural sector of the economy, due largely to the fact that nearly 800 million Chinese live in rural areas.

Perestroika: Gorbachev's economic program of restructuring the Soviet economy by introducing competition, initiative, and more decentralized decision making

The Soviet reform, known as *perestroika*, was based on restructuring of their economy. The Soviets had a large industrial sector that had made great progress in the past. Now, with minimal growth in this sector, the Soviets had to restructure it to make it run faster and more efficiently.

Gai ge: Xiaoping's economic reform in China based on the modernization of agriculture, industry, science and technology, and national defence

In China, reform is known as *gai ge*. Changes in the economic policy seem more directed towards reform. The government is implementing more and more capitalist components into their economy. Increased western influences in dress, food, lifestyle, and overall economic philosophy are apparent.

1. What were the reform movements in the former Soviet Union and China called?

2. Why were these two reform movements different?

Check your answers by turning to the Appendix, Section 3: Activity 4.

Activity 5: *Perestroika*

In the late 1980s the former Soviet Union began to change. *Glasnost* and *perestroika* promised changes to many aspects of Soviet life. These changes, for the most part, were being initiated by Mikhail Sergeyevich Gorbachev.



Gorbachev had hoped to transform the Soviet Union into a modern state that could hold its own in the international marketplace. His aim was to decentralize the economy by introducing competition. Gorbachev introduced capitalist measures into the economy not seen since Lenin's New Economic Policy.

Gorbachev downgraded the importance of Gosplan. It no longer made all economic decisions, and was relegated to strategic planning. Local economic ministries lost a great deal of their power as well.

Perestroika led to the creation of a number of new laws that introduced capitalist elements into the Soviet economy.

Law on State Enterprises: Soviet plan that gave factory managers more say in production decisions and use of profits

The **Law on State Enterprises** gave managers of state-owned factories more decision-making power. They were to rely on market forces and their factories were to be financially independent, which meant that the factories could also go bankrupt. Managers gained increased control over profits. They could reinvest these profits in the factory or give them to workers as bonuses.

Gospriemka: quality control procedures instituted under perestroika

Workers were paid according to their performance. Quality rather than quantity became important. All products had to pass *gospriemka*, a form of quality control.

Thus, the State Enterprise Law allowed for personal gain, production of quality products, the elimination of inefficient enterprises, and more decentralized decision making.

Law on Cooperatives: Soviet plan to legalize small business ownership by private individuals in areas such as mechanics and restaurants

Incentives and competition were also the basis of a second of Gorbachev's new laws. The **Law on Cooperatives** allowed Soviet citizens to own businesses and legally make money. Most of the enterprises were individually or family owned. These ranged from repairing watches to making and selling clothes. These activities helped satisfy the population's demands for consumer goods and services.

This law also allowed ventures of a somewhat larger nature, including restaurants and stores. These were too large to be run by families. They were run by cooperative groups and were permitted to hire workers.

Law on Joint Ventures: a plan allowing Soviets to form profit-making partnerships with foreign firms. Soviets must control 51% of these enterprises.

Contract brigades: groups of Soviet farmers, or a single family, that managed a tract of farmland, livestock, or other agricultural assets. The farmer was allowed to sell excess for profit in open markets.



The **Law on Joint Ventures** opened the doors of the Soviet Union to foreign investment. It allowed Soviets to form profit-making partnerships with foreigners. The foreign partner could only own 49% of the joint venture. Both partners would supply capital and proportionately share profits. Examples of these ventures were McDonald's Restaurants of Canada and Coca Cola U.S.A. Gorbachev was determined to bring in Western technology and management techniques. He hoped these foreigners would become models for the Soviet business community.

Lastly, Gorbachev moved to "de-Stalinize" agriculture. He established **contract brigades** on the farms which allowed groups of farmers, or a single family, to manage, but not own, a tract of farm land, livestock, or other agricultural assets. The farmer kept whatever profit he could make from these ventures. These contract brigades also permitted the operation of machine shops and trucking businesses. Gorbachev merged a number of farm ministries, increased autonomy for state farms, and called for crop sales at unregulated prices.



As you can see, sweeping changes were being made to the Soviet economy. The introduction of capitalist elements and the necessary changes to their philosophy were being resisted by some members of the Soviet society. Many others saw the changes as the only way the Soviet system could continue its existence.

By 1990 the Soviet economy was in serious trouble facing a grave economic crisis. Production in factories and on farms was falling and prices were rising. Many large cities were rationing the amount of basic goods their residents could buy as the distribution system was breaking down and many regions were refusing to ship their goods to the cities. Besides these consumer shortages, many workers were losing their jobs as factories and farms tried to cut costs to improve their profits. Gorbachev's economic policies were facing their biggest challenge.

In late 1990 Boris Yeltsin, leader of the Russian Republic, introduced a plan to change the centrally planned economy of Russia to a market economy within 500 days. Under his plan state farms and factories would be sold to private investors. The government would no longer control prices. All state-owned shops and restaurants were to be privatized. A new central bank and a stock market were to be established. Spending cuts were needed in such areas as foreign aid, military, and the secret police. The central planning system of production in Moscow was to be dismantled.



Gorbachev also introduced a plan to save the economy and promised to improve the supply of consumer goods. He wanted to gradually end the system of central planning, to create a modified market economy (which included some central planning and the existence of some markets) by the end of 1992. He planned to end some price controls, set up a new central bank, and to make large spending cuts. The republics and local authorities were to gain more power to regulate their own prices. The smaller state-owned factories, stores, and restaurants were to be sold to private individuals. A fierce debate occurred between Yeltsin and Gorbachev over which of the two plans should be used and while they debated this, the Soviet economy continued to operate without a plan.

With neither of the two plans being put into effect, economic conditions grew worse. In early December 1991, Yeltsin took over the Union ministries and Gosplan and abolished the old system of central planning. The leaders in the Ukraine and other republics also seized their offices of the ministries and Gosplan. Soviet industrial production was declining rapidly and the economy was close to collapsing by the end of 1991.

On January 1, 1992, the end of the Soviet Union was officially announced. The Commonwealth of Independent States was created to begin a new chapter in the history of the Soviet Union.

1. What was *perestroika*?

2. What capitalist elements was Gorbachev trying to introduce into the Soviet economy?

3. Explain each of the following laws.

- a. the Law on Cooperatives

b. the Law on State Enterprises

c. the Law on Joint Ventures

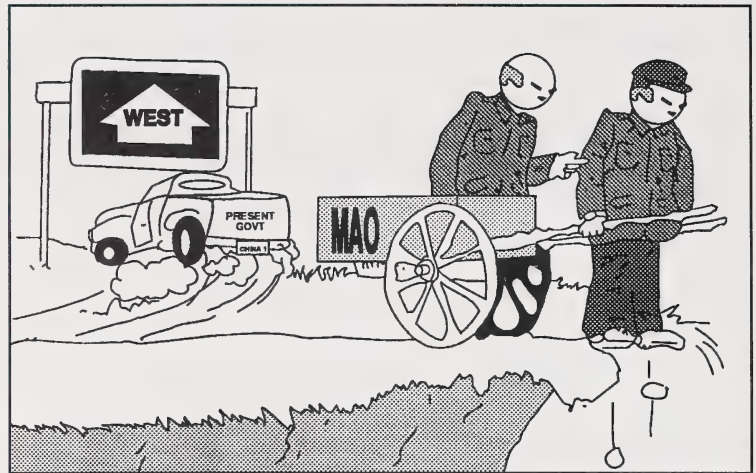
4. What reforms took place in the agricultural sector?

5. What similarities were there between these reforms and Lenin's N.E.P.?

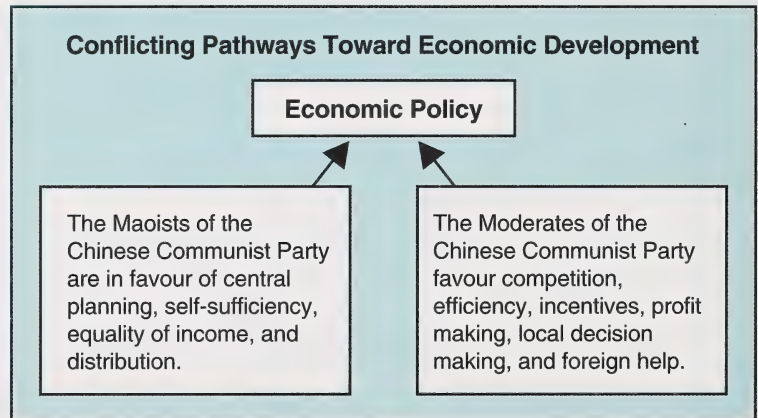
Check your answers by turning to the Appendix, Section 3: Activity 5.

Activity 6: Economic Reform in China

SOURCE I



SOURCE II



SOURCE III



Note: In 1935 Mao Tse-tung became the leader of the Chinese Communist Party. He was the leader of the People's Republic of China from 1949 until his death in 1976.

1. Who is the main character in the two cartoons?

2. What is the main point expressed in Source I?

3. What is the main point expressed in Source II?

4. What is the main point expressed in Source III?

5. What is an overall issue presented by the three sources?

Check your answers by turning to the Appendix, Section 3: Activity 6.



Four Modernizations: Xiaoping's program to modernize agriculture, industry, science and technology, and national defence

10 000 Yuan farmer: rich farmers under the Chinese economic reforms of gai ge

Activity 7: Gai Ge

Do either Part A or Part B. To do Part B you require access to video equipment and the videotape *China Since Mao* and *From Marx to Mastercharge*.

Part A

Changes in the Chinese system are known as *kai feng* or “opening up,” and *gai ge* or “reform.”

With the death of Mao Tse-tung in 1976 a new leader emerged. Deng Xiaoping was a more liberal thinker, particularly in economic matters. He announced the **Four Modernizations**. This program called for the modernization of agriculture, industry, science and technology, and national defence. Major changes in the economic system were needed to reduce government control of that economy. The changes were to be phased in over five years. They were intended to improve living standards and speed up modernization and industrialization. The changes introduced more competition and free enterprise, and relaxed the centrally planned and directed system.

In 1978, Xiaoping revolutionized agriculture by restoring family-run farms and encouraging these farmers to produce crops that they could sell privately. The land was still owned by the state, but farmers could decide what to produce. This gave farmers the incentive to work harder and produce more. The more they produced, the more profit they could earn. The most successful farmers came to be known as the **10 000 Yuan farmer** (the prosperous one). With the profits these farmers earned they could invest in other enterprises such as trucking, or the production of cement and fertilizer. They could also hire other workers to help in their enterprises.



Agriculture can be very challenging in China. Terraced hills allow for maximum usage of land.

¹ TIME, October 2, 1989

Xiaoping initiated similar reforms in industry during the 1980s. Prices for food and consumer goods were set according to demand, and state subsidies were removed. Wages and prices were left to find their own levels and private and collective enterprises were encouraged.

Factory managers were given more autonomy in running the state-owned factories. Production and profits or losses were to be determined by market forces. The Chinese began to stress the system of **cheng bao**, or the contract system. New factory workers signed employment contracts subject to review after four or five years. This concept shattered Mao's "iron rice bowl" whereby jobs could be held for life and even passed on to family members after death.

Quality control was introduced into the factory system. Quality is being stressed and capitalist management techniques are being used.



In the retail industry, private enterprise is flourishing. Restaurants, beauty salons, and street vendors are popular. Advertisements are even appearing on Chinese television selling soft drinks, fast food, and women's fashions.

Like the former Soviet Union, China has opened its doors to the outside world. The country is attempting to attract foreign investment into four **special economic zones** and fourteen coastal cities. They are offering tax incentives, and reasonable land and labour rates. Because the Chinese have an almost unlimited supply of labour, they are trying to bring in the technology for this labour to use. They are promoting scientific and technological exchanges to upgrade their industry.

One of the most surprising developments of China's economic reform is the emergence of the People's Liberation Army as a business. Now thousands of soldiers are running factories that produce consumer goods. There has been a major overhaul

Cheng bao: the contract system used in Chinese industry whereby workers sign an employment contract that is reviewed. Workers can be fired for inefficiency.

Special economic zones: areas in China where foreign investment is encouraged through lowered land and labour costs

of the military. The army is making rowing machines and trash compactors, instead of guns. Uniform factories now produce teddy bears and T-shirts.

The economic reforms put forth during the 1980s proved to be remarkably successful and led to higher rates of industrial growth and general economic growth. Between 1979 and 1988 China's GNP grew by an average of 9.6% annually. Following the June 4, 1989 political upheaval in Beijing, economic reforms were curtailed and some private enterprises were closed down. Ideological expression was greatly restricted and an anticorruption drive was carried out. In the spring of 1992 Deng Xiaoping made a publicized visit to the most developed areas in southern China marking the resumption of the move towards a market-oriented economy. China's GNP growth for 1992 was over 12% and China is emerging as one of the world's fastest growing economies in the 1990s.

1. What reforms are taking place in Chinese agriculture?

2. Why are the Chinese changing the factory system?

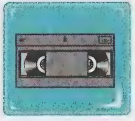
3. a. What are special economic zones?

b. Why are they being created?

4. What is the new role being played by the Chinese military?

5. What were some economic consequences of the 1989 student revolt?

Check your answers by turning to the Appendix, Section 3: Activity 7.



Part B

If you have the appropriate video equipment, it is suggested that you view the two videotapes *China Since Mao* and *From Marx to Mastercharge*. The first video is approximately twenty minutes long while the second video is about one hour long. Both outline the various economic reforms instituted by Deng Xiaoping. Once you have viewed the videotapes answer the following questions.

6. a. Who is Deng Xiaoping?

- b. What is he trying to do with the economy?

7. a. Why did Chinese reform begin with agriculture?

- b. What is a *10 000 Yuan farmer*?

8. What impact has *cheng bao* had on the factory system?

9. Does advertising play a role in China? What role?

10. How does the government regulate consumer demand?

11. Explain the statement “to get rich is glorious” as used by the Chinese.

12. a. What is the Chinese “open door” policy?

b. How is it influencing the economy?

Check your answers by turning to the Appendix, Section 3: Activity 7.

Follow-up Activities

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

In this section you learned about some of the problems that existed in centrally planned economies that related to changes being made to the socialist policies of some of the countries with such systems. Go back to the section notes to review what some of these problems were and the changes some countries introduced in attempts to remedy these problems.

Mr. Spetz was a business education teacher at Sydenham High School near Kingston, Ontario when he wrote the following article. In this satire Mr. Spetz comments on some plans present in the Canadian social system. He asks the reader to stereotype recipients of such services as being demotivated to provide for themselves. He suggests that such plans, carried to the degree they are in some systems, serve only to demotivate people and harm the economy. Such plans do not, however, have to demotivate people as can be seen in the case of Sweden where its socialist policies generally have been successful. Read the following satirical article and then answer the questions that follow.

When Welfare Came to the Classroom

By Steven Spetz

I have often heard it expressed that the classroom should be a small window upon life and prepare the student for the world he will soon enter as an adult. I accept this idea, and introduced a magnificent scheme of marking that would alert students of economic factors they should appreciate. When I gave back a major assignment, the students noted some peculiar entries on their papers.

“Sir, what does it mean, minus six marks for Student Pension Plan?”

“Well, Bob, the Student Pension Plan is one that I invented similar to a government pension plan. You put aside some of your marks each week into a fund which will be available should you decide to retire towards the end of the school year.”

“Do I get them back?”

“Yes, but in the meantime inflation will have eroded the marks terribly, so you will probably get back only a small part of what you set aside. Yes, Mary?”

“Sir, what does it mean, minus four marks for Unemployed Student Insurance?”

“Ah, good question. Suppose you are absent or for some reason fail to hand in your assignment? Then, you are authorized to draw marks from the Unemployed Student Insurance Fund to make sure you don’t suffer a drop in marks.”

“But what happens to my marks if I do all my assignments – do I get my marks back?”

“Certainly not. The marks are needed by the more unfortunate.”

“Sir... Fred got 55 per cent on his assignment and he didn’t even do it?”

"Yes, I know. You see how the Unemployed Insurance works? Fred didn't do anything, but we can't let him fail, so I authorized him to draw 55 marks from the Insurance Fund."

"But the reason he didn't do it was he went to the hockey game. He said 'to hell' with your assignment and..."

"It doesn't matter. Each of us owes a duty to our neighbours to see that they encounter no hardships. It's their birthright."

"Even if they don't do anything?"

"Perhaps he was unable to do it."

"Sir, what would happen if we all didn't do the assignment? I mean suppose we all just asked for 55 marks, what would happen?"

"Tsk, tsk, Tom I assume that each of you wants to work, that you seek work and savour it. I know none of you would deliberately turn down the opportunity to work."

"Sir, what does it mean, minus five marks for Student Health Plan?"

"That is in case you are ill for a prolonged period of time. The Plan will pay you 60 marks a week while you are convalescing."

"Why didn't you deduct any marks from Hilda for the Student Health Plan?"

"She comes from a low-income family. Can't expect her to pay anything, can you?"

"Sir, you took 15 marks from me for Student Income Tax, but you only took four from Ralph."

"Well, you are in a higher bracket than Ralph. You had a mark of 86 per cent while Ralph had only 57 per cent. You should pay more than he."

"Why?"

"Just because it always works that way."

"Sir, I had a mark of 58 per cent. After you deducted Student Income Tax, Student Health Plan, Student Pension Plan and Unemployed Student

Insurance, I ended up with only 39 per cent. I passed the assignment but all your deductions made me fail. I would have been better off if I hadn't done it at all, like Fred. He didn't do anything but got a higher mark than I did."

"Yes, unfortunately there are a few cases where it does work out like that. Some people are financially better off not working than working."

"You mean it's better to refuse to work rather than work and get a low passing mark?"

"Yes, but again I want to emphasize that I know each of you would not want to take advantage of such an idea. The thrill of the job alone should drive you onward even though you end up with fewer marks. Besides, you wouldn't feel morally right knowing you were drawing marks from your fellow students when you were perfectly capable of getting them yourself."

"Sir, do people really live like this?"

"Certainly, it's part of the great social scheme of life."

As the schools bell rang, I knew I had succeeded beyond my utmost dreams. The students were actively talking about incorporating so they could defer taxes, bringing in large numbers of immigrant students to do their assignments at a low pay scale while they collected from the Unemployed Student Fund year round, applying for government assistance to pay their Student Health Plan premiums because they came from low-income families, and had started a Strike Fund to keep their marks up while they were busy picketing the school for higher marks, a four day week and a student drinking lounge.

And I watched them happily thinking of ways to obtain extra marks from the Unemployed Student Insurance Fund by enrolling in the plan under more than one name.¹

¹ © "Spetz Publishing Limited" 1995/CANCOPY.

1. The author has presented a negative view of socialism.

a. What are the negative results he sees coming from socialism?

b. Do you agree with his view? Why or why not?

2. What are positive results of socialism that would counter Mr. Spetz's views?

Check your answers by turning to the Appendix, Section 3: Extra Help.



3. Fill in the following retrieval chart dealing with economic reforms in the former Soviet Union and China. You will compare the reforms of the two countries in the areas of industry, agriculture, foreign investment, and the retail industry.

Economic Reform in the Former USSR and China

	Industry	Agriculture	Foreign Investment	Retail Industry
<i>Perestroika</i> Former Soviet Union				
<i>Gai Ge</i> China				

Check your answers by turning to the Appendix, Section 3: Extra Help.

Enrichment

Read the following and answer the subsequent questions.

Out of the Ashes

Fifteen new nations have risen from the wreckage of the Soviet Union and most of them have joined to form a loose alliance

Mikhail Gorbachev – remember him? – is out of a job. He was president of the Soviet Union, but there is no Soviet Union any more. It died, officially, as the bells rang in the New Year on 1 January, when it was replaced by the new Commonwealth of Independent States. Even the red hammer and sickle flag which had flown for 70 years came fluttering down.

Mr. Gorbachev's empire, once one of the two superpowers, is in pieces because of the openness and restructuring which he himself preached. It was not the end which he foresaw or wanted. His goal was a reformed but still mighty Soviet Union with greater powers for the member republics but a strong guiding hand at the centre.

For the 15 Soviet republics that was not good enough. They saw how *glasnost* and *perestroika* had freed the Soviet satellites in Eastern Europe in 1989 and demanded the same independence for themselves. Mr. Gorbachev tried desperately to sell them on a new Union Treaty. This would have given them more say in policy making but would still have left foreign affairs, the army, police, and a national currency in the hands of Moscow, the capital. But even last summer, prospects were already looking dim for the treaty as six republics rejected it altogether.

Then, in August, a day before leaders of the other nine republics were scheduled to sign the pact, came the coup attempt by Communist hardliners. The coup failed and the kidnapped President Gorbachev returned safely to

Moscow. But, Boris Yeltsin, President of the giant Russian Federation, had by now replaced him as the dominant popular figure.

The coup, in fact, was the crucial event which began the final decline and fall of the man who had made the second Russian revolution possible. From that time on, Communism, already dying, could be pronounced dead except for a twitch or two. The day after the coup failed, Mr. Yeltsin ordered the dissolution of Communist groups in the armed forces on Russian territory. As he did so, mobs in the streets attacked Communist symbols.

Mr. Gorbachev, who had always until now defended the Communist Party as one that could be reformed, bitterly condemned it after the coup. He resigned as General Secretary (Party leader), seized its vast properties, and recommended that it be dissolved. The gestures came too late, however. The people saw Mr. Gorbachev as still tarred with the communist brush and despised him for his failure to put food on the table and goods in the shops. The man hailed as a reforming hero abroad had no longer any honour or respect at home.

The tide was against him, but the Soviet president swam desperately to survive. Last September, he was still pleading for a reformed but much looser Soviet Union. The three Baltic states (Estonia, Latvia, and Lithuania) were granted independence. Of the remaining 12 republics, 10 agreed to form a transitional government which would take them into a new confederation.

Economic cooperation was to have been the glue that would hold this new union together.

By October, the glue was already coming unstuck as republic leaders were slow to sign the treaty. Ukraine was a major holdout and, in December, it delivered the final, crushing blow to Mr. Gorbachev's hopes of union. In a referendum, Ukrainian voters overwhelmingly supported full independence. With 52 million people, rich soil, and heavy industries, it is the second wealthiest republic in the former Soviet Union. Without it, Mr. Gorbachev's dream of a new federation had no chance.

Events moved swiftly from that point. On 8 December, the Russian Federation, Ukraine, and Byelorussia formed a Commonwealth of Independent States (CIS). These three Slavic republics account for 73% of the former Soviet Union's population, 80% of its Gross Domestic Product, 74% of its agricultural output, and 89% of its foreign exports.

As the new Slav union would have no central government, there would be no unified foreign policy, nor a single control over the military, the police, and nuclear weapons. They would all use the ruble as their currency, harmonize their banking systems, and guarantee the rights of minorities. The Commonwealth headquarters would be in Minsk, not Moscow. Mr. Gorbachev was not invited to the founding meeting.

All this appeared to leave out four Muslim central Asian republics which were not consulted. It also left out a fourth major republic, Kazakhstan, which has a 38% Russian population and a large stockpile of the most devastating long-range nuclear weapons. That could have meant a dangerous division of the former Soviet Union along ethnic and religious lines, with a risk of future nuclear conflict.

However, though these republics felt snubbed by the Slavic Commonwealth,

Mr. Yeltsin assured them that all would be welcome. By mid-December, President Nursultan Nazarbayev of Kazakhstan, who had always been loyal to Mr. Gorbachev, now said his republic wanted to join the commonwealth. So did the four impoverished Central Asian republics of Kirgizia, Tadzhikistan, Turkmenistan, and Uzbekistan. Armenia, another former Soviet republic, also applied for admission to the CIS.

At a later December meeting in Alma-Ata, the Kazakhstan capital, Moldova and Azerbaijan also joined the CIS. Of the 15 original Soviet republics, only Georgia and the three Baltic states remained outside the commonwealth.

Western nations look at these rapid power shifts with mixed feelings. On the one hand, there is hope that some kind of stability may emerge from the ruins of the Communist empire. On the other, there is worry about the potential for disaster in the world's largest arsenal of nuclear weapons. The former Soviets are said to have some 25,000 atomic warheads which, until now, have been under secure central control. Now, these fearsome weapons are distributed among four independent republics with only loose ties and no strong power at the centre. How safe are megaweapons which can blow the world apart in these circumstances?

European Community (EC) leaders are concerned. They want to know what use the new commonwealth will make of its former Soviet arsenal. The North Atlantic Treaty Organization (NATO) is anxious about the physical security of the weapons. British Defence Secretary Tom King says that security seems solid for now but it "is only as good as the people manning it. And if they are unpaid and unfed, if morale is bad, we do have problems."

The United States, as the other nuclear superpower, has a special responsibility on the safety issue. It too is joining an international effort to contain and destroy the former Soviet nuclear

warheads. The U.S. Congress has already voted \$400 million to a project of safe storage; dismantling the weapons could eventually cost billions.

The three Slavic members of the new commonwealth say the weapons will remain under a single command. Ukrainian President Leonid Kravchuk said the CIS “will work out mechanisms providing for guarantees of the non-use of nuclear weapons.” Boris Yeltsin wants to rid all republics of nuclear weapons except his. However, President Nazarbayev says that is “not acceptable” for Kazakhstan which would give up its nuclear weapons only if Russia did too.

At the Alma-Ata meeting, the four nuclear republics set up a joint nuclear command. Russia will have the “one button” to launch the missiles but will co-ordinate any decisions with the other three republics. Meanwhile, members of the new commonwealth say the ongoing agreements on arms reduction negotiated with Mr. Gorbachev will move ahead. Present prospects for nuclear security look good, though theft by terrorists or seizure by warring armies remain as haunting fears.

A parallel concern is the fate of the huge Red Army. Experts say that the military, with its vast industrial base, is breaking up along the same lines as the shattered political union. There’s no longer any clear political authority at the top, so military units and their officers are “following their pay cheques” to republican governments.

Republics, in turn, are assuming control of their own conventional forces. Ukraine set the pace by taking over the 1.2 million Soviet troops based there.

There could be an ugly side to the Red Army falling apart. Fascism (strong right-wing nationalism and racism) is on the rise in Russia. Many army officers are angry with the upheavals which have cost them their privileges in the old Communist society. They may not support fascist leaders such as Vladimir Zhirinovsky now, but failure to pay

them or other grievances could tip the scales toward a military coup.

The new CIS has yet to prove itself:

- Within a week of its founding, Byelorussia issued a list of seven demands, including one to set a fixed date for the expiry of the commonwealth.

- Agreements to keep the ruble as a common currency, a cherished goal of Mr. Yeltsin’s, looked shaky as Byelorussia planned to pay pensioners and workers at least part of their income in coupons.

- Now that Mr. Yeltsin is the man in charge, questions are beginning to pop up about his ability to govern. He rode to power with the support of such radicals as Moscow Mayor Gavriil Popov. Now, Mr. Popov is quitting his post as mayor because he says he cannot work with the Yeltsin government. Mr. Yeltsin’s own vice-president, Alexander Rutskoi, and the republic’s highest legal body both warned of the danger of Russia’s leader turning into a dictator.

- Mr. Yeltsin has laid claim to the Soviet Union’s “vacant” seat on the United Nations Security Council. But, in Kazakhstan, President Nazarbayev opposed Russia’s claim to the old Soviet seat.

- Mr. Yeltsin floated an even more startling idea with his application for admission into NATO, the alliance which was set up to counter Soviet military power.

- In Georgia, what amounts to a civil war got underway as the Soviet Union collapsed. Georgian President, Zviad Gamsakhurdia, was pinned down in the republic’s parliament building by rebel gunfire. He later fled.

With January, came Mr. Yeltsin’s “liberalization” of prices; price controls are now off in keeping with the change to a market economy. Because inflation was already running at 200% under the old price ceilings, even staple foods such as bread, milk, and meat may be temporarily too expensive for millions to buy them. Basic medical supplies,

always scarce, are now unobtainable in many hospitals. Winter weather makes the misery complete. And, acute shortages in a paralyzed economy make for instability as the new commonwealth struggles to replace the old USSR.

Western nations know that the consequences could be more strife of the kind in Georgia or even more dangerous inter-republic clashes. To relieve suffering among the Soviet peoples this winter, the United States called representatives from developed nations to a conference on aid in January. French President Francoise Mitterand

noted that European countries were in close touch with their former Soviet neighbours and had already donated far more than the U.S. And, NATO has adopted a Canadian proposal to use its troops for a Soviet relief program. They are working with the former Soviet military to transport and distribute food and medical supplies to the republics.

Will Western help be too little and too late to put the fledgling commonwealth on its feet? The world has more than humanitarian reasons for hoping not.¹



1. What happened in the Soviet satellite nations in Eastern Europe as a result of Gorbachev's reforms?

2. "*Glasnost* and *perestroika* brought about the end of the Soviet empire."

Do you agree with the preceding statement? Why or why not?

¹ R/L Taylor Publishing Consultants Ltd. for the article from *Canada and the World*, "Out of the Ashes," by Charles White, February 1992. Reprinted by permission of *Canada and the World*, Oakville, Ontario.

3. Use current news sources to update the article on changes in the Commonwealth of Independent States and events in the republics of the former Soviet Union. Concentrate your efforts on news relating to the economic events occurring there and Western aid given to the former Soviet people.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Check your answers by turning to the Appendix, Section 3: Enrichment.

Conclusion

Countries all over the world are looking for ways to improve their economies. Socialist nations are no different. Some of them have chosen to privatize state-owned or state-run enterprises, while still others are turning to the market and competition to help energize stagnant economies. Two highly publicized efforts are taking place in the former Soviet Union or Commonwealth of Independent States and in China.

Perestroika in the former USSR was aimed at introducing capitalist techniques and practices into the economy. Reforms in the former Soviet Union stressed restructuring the existing economy, particularly in the industrial sector.

The Chinese are making changes in agriculture and increasing their ties with the West. *Gai ge* in China allows for capitalist techniques and practices.

As one can see, new issues and ideas challenge traditional political and economic beliefs and practices. As times change, so must systems to meet these changes.

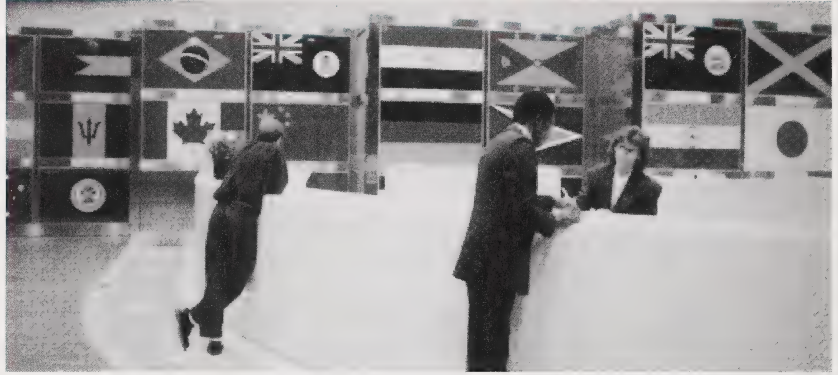


Assignment
Booklet

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for this section.

Capitalism and Socialism—Competing Economic Systems?



COURTESY OF SCOTIABANK

What makes a country a good place to live in? The political system that the country has would be one important factor. What about its economic system though? Consider your own life. How is your life affected by the economic system that Canada has? What types of changes would help to improve Canada?

Economics is an area of study that affects nearly all individuals in a society. When you go to the bank, receive unemployment insurance, or when the government hires people to plant trees, economics are involved. How a country determines answers to questions of production and distribution has a profound effect on the ways of life and standards of living on its citizens.

In this module on socialism, and in the previous module dealing with capitalism, you were presented with two very different views as to how an economy should be run. You will now have the opportunity to apply what you have learned in the two economic systems modules.

In this section you will learn

- to identify characteristics of both socialist and capitalist economies
- to describe characteristics of capitalist and socialist economies
- to analyse hypothetical economic situations to determine capitalist and socialist elements in them
- to write an essay modelled after the essay used on the Social Studies 30 Diploma Exam

Activity 1: Economic Systems – A Summary

Economics is something that affects most people every day of their lives. People earn money, spend money to buy things, make things to sell, pay taxes, and collect interest, without even thinking that these activities are all part of economics.

Economics is sometimes defined as the science that attempts to solve the problem of scarcity and satisfy people's wants. In many cases people's wants exceed the supply of goods and services. The problem is one of limited resources and unlimited desires. There are just not enough resources for everyone to have everything they want.

As you may remember, resources are usually divided into three categories: land (natural resources and real estate), labour (things people do), and capital (accumulated goods devoted to the production of other goods). The problem is for countries to determine how to make the best use of their resources in order to solve the problem of scarcity.

All economic systems must solve three basic questions – what to produce?; how to produce it?; and, who gets what share of the production? Different countries, depending on their basic philosophies, use differing methods to come up with answers to these questions.

Individualism: a political or economic theory promoting individual control and profit in regards to production and distribution

Some countries, such as the United States and Japan, stress **individualism**. Each of the economic questions, for the most part, are answered by individuals. Individual initiative, self-interest, decentralized decision making, competition, and the profit motive are stressed. It is every individual's right to own property, enter into contracts, and purchase whatever products he or she chooses. In theory, each individual succeeds or fails based on the personal decisions made.

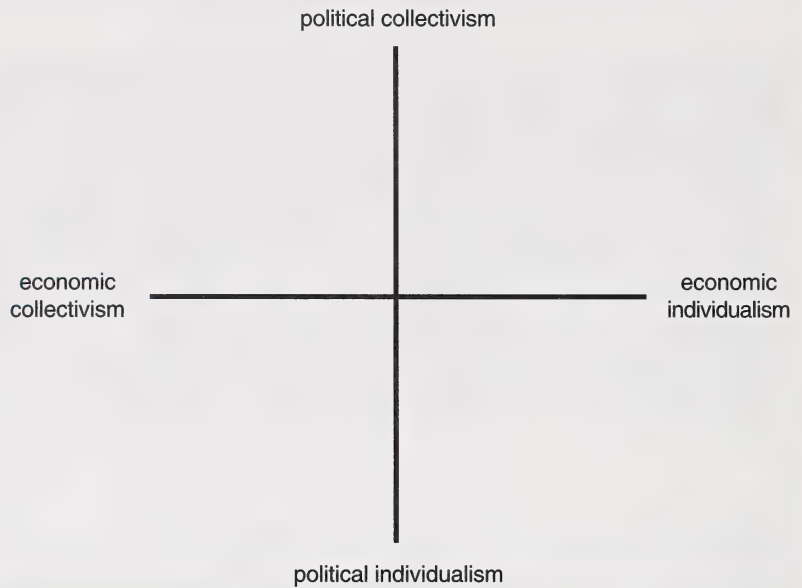
Other nations promote collectivism. Countries like the former Soviet Union, China, and Sweden answer the three economic questions based on what is in the best interests of the entire society. They stress income equality, cooperation, group welfare, and government regulation of the economy. Each individual member of society has the right to a basic standard of living and universal social services.

Still other nations have opted to utilize elements of both the individualist, or capitalist philosophy, and the collectivist, or socialist philosophy. These mixed economies tend to be the most prevalent in today's world. Canada is a prime example of this compromise between the two systems.

It is important to understand that all economies are not static. Basic philosophies change with the changing views of political leaders or parties. As political perspectives change, often economic tendencies move closer to one side of the economic spectrum or the other. Under the view of political liberalism, laissez-faire capitalism flourished, but as labour governments came to power there was a tendency towards more collectivist policies. With the ascent to power of Mikhail Gorbachev in the USSR, the extremely socialist economics of Stalin were altered to incorporate capitalist elements.

Place the following nations in the most appropriate quadrant in the following grid.

Sweden, Japan, the U.S.A., the USSR under Stalin, China under Mao, Nazi Germany, and Fascist Italy.



Check your answer by turning to the Appendix, Section 4: Activity 1.

Activity 2: Capitalism or Socialism?

Read the following two statements and then answer the questions that come after the readings.

Position 1

Jones operates a consulting business.

Jones believes in the benefits of hard work in developing character. Too much government help weakens personal initiative, she believes, and people lose out on feelings of achievement and individual worth that result from success.

She thinks government is overly involved in society. Too many people get too much help, and she feels she pays too much in taxes to support it all. She doesn't like it.

Jones will admit that there is a place for government regulation. Her own business probably survives because the government restricts the number of firms in her industry through licensing. Somewhat limited competition is necessary under the conditions of today's markets, she says.

Position 2

Brown is a social studies teacher in a big-city composite high school.

He thinks big business gets too many breaks and doesn't pay a fair share of taxes. As he sees it, governments have steadily reduced business taxes and have given corporations all sorts of grants and loans. His own taxes have steadily increased and he doesn't think this is fair.

He is not particularly happy with current unemployment and welfare measures provided by governments. He thinks they are too limited. In Brown's estimation, the levels of payments in both programs are below the poverty line. He thinks society can do much better for people who suffer misfortune. He would like governments to sponsor employment programs that would lead to personal and social improvement for people out of work.

1. Which economic system does each person lean towards? Explain.

2. Which form of economic system could both speakers accept?

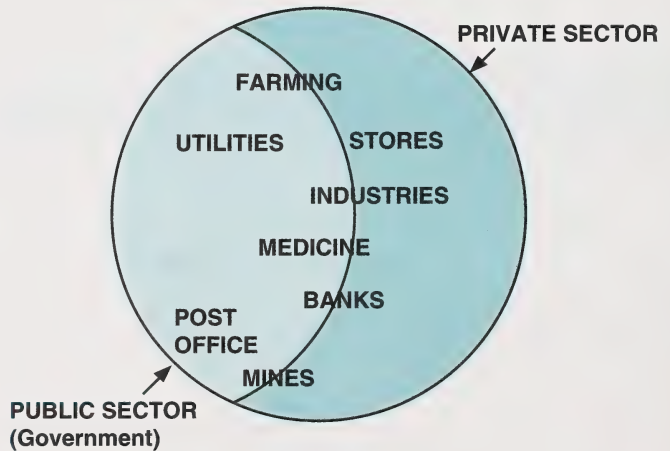
3. What issue are both points of view addressing?

Check your answers by turning to the Appendix, Section 4: Activity 2.

Activity 3: Types of Economic Systems

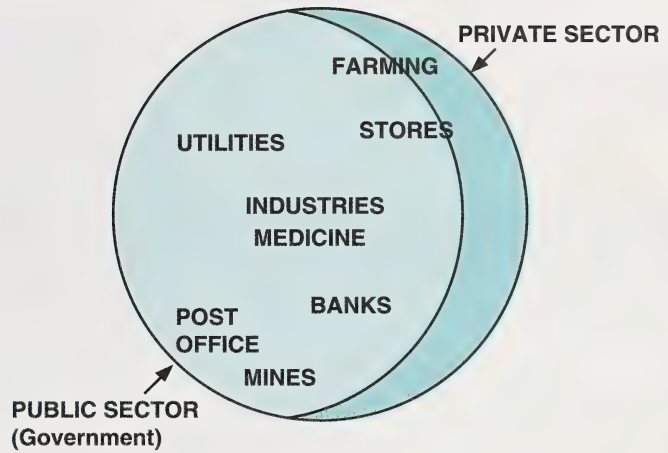
Label the diagrams which follow as being a capitalist, mixed, or command economy, or the welfare state. Then justify each of your choices based on the information given in each diagram. Put your answers in the spaces provided.

TYPES OF ECONOMIC SYSTEMS



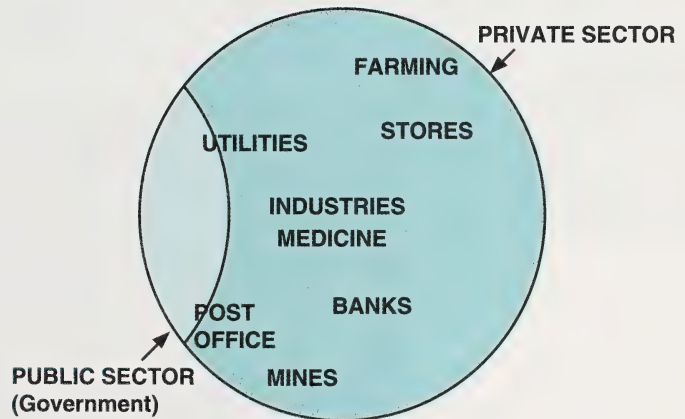
Label: _____

Justification: _____



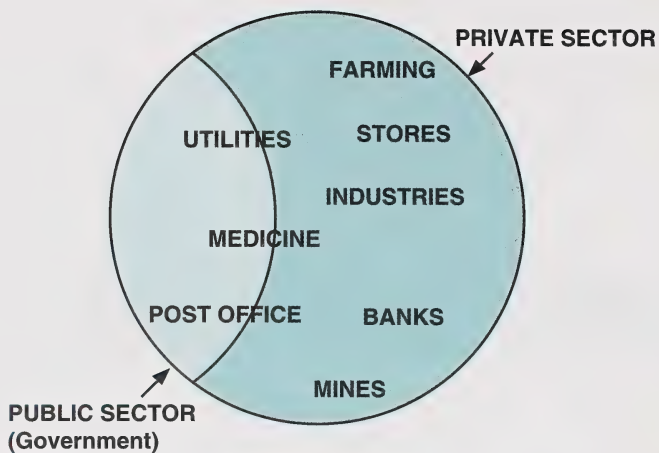
Label: _____

Justification: _____



Label: _____

Justification: _____



Label: _____

Justification: _____

Check your answers by turning to the Appendix, Section 4: Activity 3.



Activity 4: A Hypothetical Case

Examine the following chart and then answer the questions that come after the chart.

Distribution of Business Ownership (in percent)

Type of Business	State-owned	Owned by Co-operatives	Privately owned
Agriculture and forestry	6	8	86
Mines and quarries	56	0	44
Manufacturing	9	7	84
Utilities (such as gas and electricity)	90	2	8
Construction	15	0.5	84.5
Service enterprises (such as hotels, wholesale, and retail)	3	14	83
Transportation and communication	60	2	38
Finance, insurance, and real estate	2	10	88
Shipyards	100	0	0

1. Which type of economy is described by the chart? Explain.

2. What changes would have to be made in the chart to make it representative of a command system?

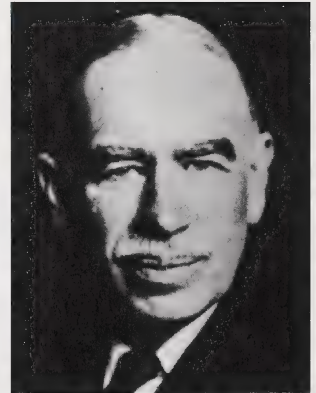
Check your answers by turning to the Appendix, Section 4: Activity 4.

John Maynard Keynes: an economist who promoted government intervention in the economy

He suggested increased spending and decreased taxation during recession, and the opposite during periods of inflation.

Activity 5: Economic Strategies

In the 1930s, British economist **John Maynard Keynes** created new solutions to the problems inherent in the business cycle. He believed governments should adjust their spending to meet the needs of the prevailing economy.



During periods of recession, Keynes felt, the government should act as a stimulus to the economy by increasing spending, decreasing taxation, and borrowing more. The government should also reduce interest rates and encourage consumer spending.

Alternately, during periods of inflation there should be restrictions on spending, higher taxation, and less borrowing by the government. Also, to help slow down the economy, there should be higher interest rates to discourage consumer borrowing.

Reaganomics: an economic philosophy that emphasizes tax reductions and reduced government spending

Trickle down approach: part of Reaganomics, whereby those who would receive initial benefits from tax cuts would be the rich. They would invest the extra capital in business which would then expand and hire more workers.

In the 1980s, there was another trend introducing new solutions to the problems of recession and inflation. These new techniques are often referred to as **Reaganomics**. This philosophy stresses tax reduction and reduced government spending.

Supporters of this policy believe in the “**trickle down approach**.” Those who would receive the initial benefits of tax cuts would be the affluent. They would invest this extra capital into businesses. The businesses would then expand and hire more workers.

By cutting government spending, people should be less reliant on the government and more responsible for their own security. This strategy would help cut the government debt.

1. a. Which statement of strategy illustrates a socialist philosophy? Explain.
- b. Which statement of strategy illustrates a capitalist philosophy? Explain.
2. Predict at least two consequences of **each** strategy.

Check your answers by turning to the Appendix, Section 4: Activity 5.

Activity 6: The Issue

Read the statements made by the three speakers and answer the questions that follow.

Speaker I

We must pursue a society that frees the competitive nature of its citizens, encourages their initiative, and permits technical advances necessary to economic growth.

Speaker II

We must aim for the progress of all through an end to class conflict. By placing production in a vast association of the whole nation, the apparatus of the state shall eventually disappear.

Speaker III

We must, through consensus, reform our social environment to allow citizens to develop their potentials and to reach equitable material comforts in a cooperative society.

1. Which of the speakers supports the welfare state? a capitalist economy? a command economy?

2. What issue are the speakers addressing?

3. Write a statement that would reflect the views of someone who supported a mixed economy.

Check your answers by turning to the Appendix, Section 4: Activity 6.

Follow-up Activities

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

1. Complete the retrieval charts that follow. Fill in each box according to how that heading applies to each of the four economic systems.

	Capitalism	Mixed Economy	Welfare State	Command Economy
Profit Motive	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>
Intervention	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
Planning	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>

(continued on the following page)

Social Programs				
Competition				
Private Ownership				
Pricing				

2. Use the following chart to answer the questions that come after.

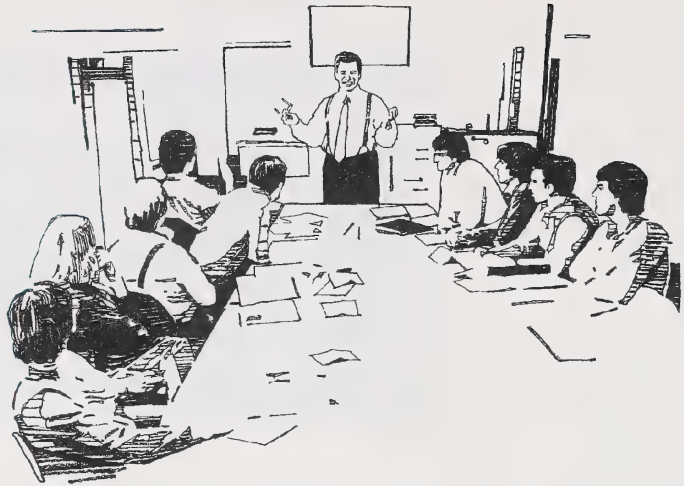
Characteristics of Political and Economic Systems

	System I	System II	System III	System IV
Production	Competitive	Cooperative	Collective	Competitive
Property	Public and Private	Public and Private	Public	Private
Power	Constitutional	Constitutional	Party	Constitutional
Decision Making	Representative	Representative	Authoritative	Representative

This chart represents one way of categorizing political and economic systems.

- _____ a. System III is most similar to the ideology practised in
- A. the U.S.A.
 - B. Sweden
 - C. Japan
 - D. the former USSR
- _____ b. The goals of System IV would typically lead to an economic strategy that encourages
- A. a progressive income tax structure
 - B. the formation of Crown corporations
 - C. entrepreneurship in the market place
 - D. foreign ownership of major industries
- _____ c. To solve the problems of economic recession and rising unemployment, a supporter of System II would most likely recommend
- A. increased government spending
 - B. increased interest rates
 - C. wage and price controls
 - D. fiscal restraint

Check your answers by turning to the Appendix, Section 4: Extra Help.

Enrichment

“MANAGEMENT IS PROUD
AND EXCITED TO ANNOUNCE
THAT FOR THE FIFTH CONSECUTIVE
YEAR, IN SPITE OF OPPRESSIVE GOVERNMENT
REGULATIONS AND TAXATION, THE ONGOING COST-PRICE
SQUEEZE, AND UNENDING AND UNREASONABLE
WAGE DEMANDS, OUR NET EARNINGS HAVE ONCE
AGAIN TOPPED ALL PREVIOUS RECORDS.”

1. In this activity you are to analyse the cartoon and answer the following questions.
 - a. How does the cartoon express bias?

- b. What values is the speaker supporting?

- c. What is the issue addressed by the cartoon?

2. The Privatization of the British Economy

The efforts at privatizing the British economy by Prime Minister Thatcher have had the following results:

- A. The trade deficit increased.
- B. Capital investment increased.
- C. Health standards dropped.
- D. Inflation and unemployment rates dropped.
- E. Economic growth increased.
- F. Interest and mortgage rates increased.
- G. Labour productivity increased.
- H. Labour disputes decreased.
- I. Pension increases were limited.
- J. State-owned industries that were losing money were sold.

- a. Which results are positive and which are negative?

b. Provide examples of similar activity in Canada.

3. “The cradle-to-grave welfare state in Britain is being torn apart. Varying degrees of user-pay health services and limitations to the unemployment insurance plan have been put into place. It has been said that if a man doesn’t want to work he doesn’t deserve to eat.”

Predict at least one consequence for Britain if the preceding policy is followed.

Check your answers by turning to the Appendix, Section 4: Enrichment.

Conclusion

Economic systems vary according to the emphasis they place on the values of individualism and collectivism. It would be impossible to find a system that entirely espoused the views of either. In every economic system there are elements of each. It is the **degree** of individualism or collectivism that differentiates one system from another.

MODULE SUMMARY

In this module you learned about the economic system known as socialism. In the first section you examined some of the theoretical foundations of socialism that were formulated in the nineteenth century. Section 2 presented information on the implementation of socialist theory. It centred on the examination of systems used in the former Soviet Union, China, and Sweden. Section 3 detailed changes that occurred in the socialist systems in the former USSR under Gorbachev, and in China under Xiaoping. The final section was a summary of economic systems. A review of both capitalism and socialism was utilized to identify a number of economic issues facing today's societies.

Capital is good; the capitalist is a helper, if he is not also a monopolist. We can safely let any one get as rich as he can if he will not despoil others in doing so.¹

Henry George, *Social Problems*

For individuals, socialism means an end to economic insecurity and exploitation. It means workers cease to be commodities bought and sold on the labour market, and forced to work as appendages to tools owned by someone else. It means a chance to develop all individual capacities and potentials within a free community of free individuals.²

The People, An editorial, August 23, 1980

ASSIGNMENT


Turn to your Assignment Booklet and do the assignment for this module.

Assignment
Booklet

¹ Leone, Bruno, "Capitalism," *Opposing Viewpoints*, Greenhaven Press Minneapolis Minn., p. 43.

² Bender, D., Leone, B., "The Political Spectrum," *Opposing Viewpoints*, Greenhaven Press Minneapolis Minn., p. 106.

Appendix

	Glossary
	Activities
	Extra Help
	Enrichment

Glossary

Act on Co-determination

- 1977, gave Swedish workers an increased voice in economic decision making, from production planning and setting goals to marketing

Anarchism

- a philosophy that advocates the abolition of all formal institutions and the organization of society based on cooperative effort

Bolshevism

- another name for Russian communism
The Bolsheviks were an extremist political group prior to 1917. Led by Lenin, they seized power in the October revolution of 1917.

Bourgeoisie

- in Marxist terminology this word designates the wealthy middle class

Central planning authority

- a committee given the responsibility of planning the nation's economy, from determining economic direction to setting targets and quotas for production

Centralization

- concentrating power, or authority, in the hands of a central organization

Cheng bao

- the contract system used in Chinese industry whereby workers sign an employment contract that is reviewed
Workers can be fired for inefficiency.

Classless society

- the state of having no separate classes
According to Marx there would be only one class, the proletariat.

Collectivism

- a political or economic theory that promotes group control of production and distribution

Collectivization

- to transfer from private to public ownership, particularly in the area of agriculture

Command economy

- an economic system that makes use of tight political and economic control and utilizes a highly centralized decision-making process and government ownership of all the means of production

Commune

- a community based on shared collective effort

Communism

- an economic theory, founded by Marx, that stresses the ownership of all the means of production by the society as a whole, with all members of that society sharing the work and rewards

Consumer sovereignty	<ul style="list-style-type: none">• consumers have the freedom to purchase any goods they choose, as long as they can pay for them
Contract brigades	<ul style="list-style-type: none">• groups of Soviet farmers, or a single family, that managed a tract of farmland, livestock, or other agricultural assets The farmer was allowed to sell excess for profit in open markets.
Cradle-to-grave welfare state	<ul style="list-style-type: none">• provision of extensive social services for the prenatal through to pensioners
Crown corporation	<ul style="list-style-type: none">• business or industry owned by the Crown or its representative, the government
Democratic socialism	<ul style="list-style-type: none">• an ideology that stresses the belief that the improved economic and social conditions of a socialist system can be brought about through democratic parliamentary means
Dialectical materialism	<ul style="list-style-type: none">• the theory that all changes in people's ideas and society are caused by material changes in the means of production
Dialectics	<ul style="list-style-type: none">• a theory developed by the philosopher Hegel which describes the logical process of change
Dictatorship of the proletariat	<ul style="list-style-type: none">• a short transitional period between the revolutionary overthrow and the state of classlessness Marx felt this would be a period for the consolidation of political power before the state withered away to classlessness.
Economic stratification	<ul style="list-style-type: none">• a layer or level that is formed based on economic standing in a society
Economics	<ul style="list-style-type: none">• the science that attempts to solve the problem of scarcity and satisfy people's wants
Enlightenment	<ul style="list-style-type: none">• an eighteenth century European philosophical movement focusing on a concern for people and their environment
Equitable	<ul style="list-style-type: none">• characterized by being equal, fair, just
Exploitation	<ul style="list-style-type: none">• to make unethical use of someone for personal gain or profit
Fabianism	<ul style="list-style-type: none">• a belief in bringing about socialist principles through gradual democratic parliamentary means
Fiscal policy	<ul style="list-style-type: none">• deals with government spending and taxation

Four Modernizations

- Xiaoping's program to modernize agriculture, industry, science and technology, and national defence in China

Gai ge

- Xiaoping's economic reform in China based on modernization of agriculture, industry, science and technology, and national defence

Gosplan

- the Soviet central planning agency

Gospriemka

- quality control procedures instituted in the former USSR under *perestroika*

Gossnab

- the Soviet agency which allocated all the needed commodities to the various enterprises

Great Leap Forward

- Mao's program to increase production in both agriculture and industry, and to get everyone involved in the program

Indicative planning

- strategic planning providing guideline forecasts to business and industry that indicate economic trends
These can be used, or not used, by the enterprises.

Individualism

- a political or economic theory promoting individual control and profit in regards to production and distribution

Industrial Revolution

- a rapid economic change in the eighteenth century that was characterized by the introduction of power-driven machines and extensive private ownership

Keynes, John Maynard

- an economist who promoted government intervention in the economy
He suggested increased spending and decreased taxation during recession and the opposite during periods of inflation.

Kulaks

- rich farmers under Lenin's N.E.P.

Land Reform Law

- 1950, Mao redistributed the land to the peasants, allowing private ownership

Law on Cooperatives

- Soviet plan to legalize small business ownership by private individuals in areas such as mechanics and restaurants

Law on Joint Ventures

- a plan allowing Soviets to form profit-making partnerships with foreign firms
Soviets must control 51% of these enterprises.

Law on State Enterprises	<ul style="list-style-type: none">• Soviet plan to give factory managers more say in production decisions and use of profits
Lobbying	<ul style="list-style-type: none">• the act of trying to get legislators to support a particular position
Materialism	<ul style="list-style-type: none">• the belief that only those things with matter exist
Mill, John Stuart	<ul style="list-style-type: none">• a philosopher and classical economist of the nineteenth century
Modes of production	<ul style="list-style-type: none">• the methods by which things are made in industry or agriculture
Monetary policy	<ul style="list-style-type: none">• having to do with the amount of money in circulation, interest rates, etc.
Mutual aid teams	<ul style="list-style-type: none">• the first step toward collectivization of agriculture in China Seven to ten families shared labour, tools, and animals, but maintained private ownership of land.
Nationalization	<ul style="list-style-type: none">• the process of government takeover of private companies
New Economic Policy	<ul style="list-style-type: none">• a plan devised by Lenin whereby the state maintained ownership of major industries, etc., but allowed some private ownership in agriculture, small factories, and the retail trade Profit making was allowed.
People's Communes	<ul style="list-style-type: none">• large state farms of 50 000 peasants, formed in China
<i>Perestroika</i>	<ul style="list-style-type: none">• Gorbachev's economic program of restructuring the Soviet economy by introducing competition, initiative, and more decentralized decision making
Prices committee	<ul style="list-style-type: none">• a committee that set all prices in the former Soviet Union prior to production
Privatization	<ul style="list-style-type: none">• the sale of government-owned enterprises to the private sector
Progressive taxation	<ul style="list-style-type: none">• the more money a person makes, the higher percentage that person pays to taxation
Proletariat	<ul style="list-style-type: none">• Marx's term to designate the industrial working class
Public enterprise	<ul style="list-style-type: none">• an economic system that stresses group or public ownership of the means of production
Quota	<ul style="list-style-type: none">• the share of production assigned to each worker or plant

Reaganomics	<ul style="list-style-type: none">• an economic philosophy that emphasizes tax reductions and reduced government spending
Recession	<ul style="list-style-type: none">• a temporary slowing of business activity during a period when economic activity has generally been increasing
Revisionism	<ul style="list-style-type: none">• an economic philosophy generally opposed to Marxism which stresses gradual economic reform through parliamentary means
Scientific socialism	<ul style="list-style-type: none">• the belief that history follows particular patterns of change which could be examined by scientifically looking at the physical world
Social Democrats	<ul style="list-style-type: none">• a political party in Sweden which promotes the philosophy of democratic socialism
Social services	<ul style="list-style-type: none">• activities that promote the well-being of the community, such as medical services and welfare
Socialism	<ul style="list-style-type: none">• an economic philosophy that stresses public ownership of the means of production over private ownership
Socialism in one country	<ul style="list-style-type: none">• Stalin's belief that before socialism could be spread throughout the world, the former Soviet Union had to become an industrial fortress
Special economic zones	<ul style="list-style-type: none">• areas in China where foreign investment is encouraged through lowered land and labour costs
Surplus value	<ul style="list-style-type: none">• according to Marx, the difference between what workers are paid and what their production sells for
The Third Way	<ul style="list-style-type: none">• 1982, a Swedish economic program aimed at keeping unemployment and inflation in check and instituting tax reform
Trickle down approach	<ul style="list-style-type: none">• part of Reaganomics, whereby those who would receive initial benefits from tax cuts would be the rich They would invest the extra capital in businesses which would then expand and hire more workers.
Universality	<ul style="list-style-type: none">• being available to all citizens of a society
Utopia	<ul style="list-style-type: none">• a time or place of perfection, a heaven or Garden of Eden
Utopian socialism	<ul style="list-style-type: none">• the philosophical belief that a perfect person could be created if a perfect environment could be created

Wage earner funds

- industry in Sweden is required to pay an employment tax plus a tax on profits to the unions to be used to purchase shares in the companies

War communism

- during the Russian civil war, Lenin asked the people to make sacrifices for the war effort such as giving up extra farm produce

10 000 Yuan farmer

- rich farmers under the Chinese economic reforms of *gai ge*

Suggested Answers

Section 1: Activity 1

1.

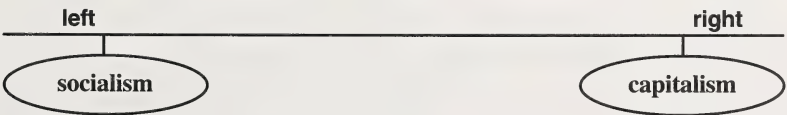
Socialism is ... an economic philosophy that stresses public ownership of the means of production.

The three branches of socialism are



2. The Industrial Revolution, and the abuses that occurred during it, led to the rise of socialist thought.
3. One needs to examine the philosophies of nineteenth-century thinkers when studying modern socialism because they provided the theoretical bases for all future developments.
4. Mill's statement meant that the advances in machinery during the Industrial Revolution made it possible to produce more at a faster rate, but the differences between people's incomes and profits were getting larger.
5. A socialist generally values equality, social welfare, cooperation, and public ownership.

6.



Section 1: Activity 2

1. The working conditions discussed are
 - long hours of work
 - unhealthy working environments
 - low wages
 - abusive treatment
2. The situation could have been improved by shortening the hours of work, making safer environments, increasing wages, and treating workers with concern for their welfare.
3. Programs today that prevent the situations include the following:
 - maximum of 40 hours of work per week, 8 hours per day
 - set minimum wage
 - unemployment insurance
 - workers' compensation
 - welfare
 - set minimum standards for working conditions
 - development of unions

Section 1: Activity 3

1. a. Utopian socialism believed in the perfectibility of people by creating perfect environments.
- b. The views of the utopian philosophers differed with respect to the creation of a perfect environment:
 - Babeuf's environment stressed communal living.
 - Saint Simon saw the state run by economic experts.
 - Fourier suggested cooperative economic communities.
 - Blanc's ideas centred on social workshops.
 - Proudhon advocated the destruction of all institutions.
 - Owen felt better living conditions for workers would create the perfect environment.
- c. (1) Anarchism stresses the abolition of all formal institutions and a society based on cooperative effort without formal government.

(2) This might be called total freedom because there would be no institutions to establish rules; each person would establish his or her own rules in the best interests of the entire society.
- d. If a perfect environment, a Utopia, could be created, a perfect person might be created. It is unlikely that a perfect environment could be created.

2. a. False Perfect environments create perfect people.
- b. True
- c. True
- d. False St. Simon stressed public ownership.
- e. False Fourier stressed cooperative economic communities.
- f. True
- g. False Anarchism favours the destruction of all existing formal institutions.
- h. False Owen was British.

Section 1: Activity 4

A utopian socialist would support points 5, 7, 8, 9, and 10.

An evolutionary socialist would support points 2, 5, 6, 7, 8, 9, and 10.

The policies implemented in Canada are points 2 and 10.

Section 1: Activity 5

Part A

1. Marx felt only material things existed. There is no soul or spiritual divinity. These things could not exist because they don't have matter and can't be studied scientifically. Religious supporters would say that there is a spirit and a God.
2. Reasons capitalism has not collapsed include the following:
 - It has adapted so that workers are less exploited.
 - Laws have been created to protect workers.
 - Wages have improved.
 - Elements of socialist thought, such as welfare payments and unemployment insurance, have been incorporated.
3. In *Das Kapital*, Marx attacks pure **capitalism**. He argues that the entrepreneur might not be out to intentionally exploit the **proletariat** to gain wealth, but entrepreneurs do so because they must accumulate **wealth** to survive in a competitive system. Marx also claims that capitalists unfairly receive a surplus value, and that this value should be rechanneled into the **business** instead of supporting the affluent life of the **capitalist**.

Marx suggests that to lower costs and increase profits, capitalists introduce labour-saving **machines** which create a large force of **unemployed** workers. This leads to the lowering of **wages**. The "Capitalist Crisis" later occurs because the owners cannot earn a **surplus** value because they can no longer take advantage of the extra unpaid for work done by the **workers**. Since profits decline, **production** is no longer worthwhile. Because of dwindling **profits** many small capitalists go bankrupt or are absorbed by larger capitalists. These new market conditions with increased **competition** favour the bigger firms.

The capitalist view of business accepts that there will be “boom” and **depression** or **recession** periods. Marx feels, however, that prosperity and poverty both increasingly fluctuate, eventually resulting in the **collapse of capitalism**.

Capitalism then ends because the **proletariat** can no longer tolerate it. Marx is not clear about what happens after capitalism. It does seem clear, however, that Marx expected that the **revolutionary party**, which represents the workers, would completely control the **means of production**. Eventually, according to Marx, the **state** would no longer be necessary and would wither away.

Marx borrows a theory called **dialectics** from a man named Hegel to explain the changing world. However, Marx also claims that the **material** world shapes historical events.

- | | | | |
|-----------|---------|--------|--------|
| 4. a. (6) | d. (8) | g. (3) | i. (2) |
| b. (9) | e. (4) | h. (1) | j. (7) |
| c. (5) | f. (10) | | |

Part B

5. Socialists believed capitalism was an evil system, in which workers were exploited by rich industrialists.
6. Socialism is a system of social organization in which industry, capital, land, and the other means of production are owned and controlled by the community as a whole.
7. According to Marx’s definition of dialectics, people’s ideas were shaped by the material world. Marx saw evolution as the interaction of opposites, a scientific interpretation of the way in which human society develops.
8. Marx owed his theory of dialectics to the work done by Hegel.
9. The materialist’s view of the world is that the real world is the world of matter. Such a person denies the existence of any divine or spiritual forces.
10. The ideas of people at any particular time depended on the social, political, and economic conditions of their life. Materialists saw history as humankind’s mastery of nature.
11. The dialectical view of history is based on the idea that all changes in society are the result of changes in the modes of production. As more efficient means of production are found, they are adopted, and this leads to society forming itself into new economic classes.
12. Marx felt capitalism had its origins in the merchant classes in feudal society. As these merchants developed industries and accumulated wealth they formed themselves into a class, the bourgeoisie. This industrial development also created a new class of urban workers who were exploited by the owners of the factories. These two classes would come into conflict and a new stage of development would occur – socialism.

Section 1: Activity 6

1. The evolutionary socialists criticized Marx regarding
 - the use of violent revolution to overthrow the government
 - the establishment of an interim dictatorship
2. The evolutionary socialists felt that the death and destruction of violent revolution would make the conditions for the workers worse. Many workers would die in the revolution, and then it would take many years to try to rebuild the economy.
3. They were called revisionists because they were revising, or amending, Marx's theories to fit their situations.
4. The Fabians were a group of intellectuals, primarily British, whose aim was to educate people as to the benefits of socialism without promoting revolution.

Section 1: Follow-up Activities

Extra Help

Part A

1. Socialism promotes the public ownership of property while capitalism promotes private ownership. Socialism supports collectivism, while capitalism supports individualism.
2. Prior to the Industrial Revolution, workers were no worse off than during the Industrial Revolution.
3. The Utopians were a group of intellectuals in France and Britain who urged a return to a simple life modelled on the peasant village.
4. Communism was called scientific socialism because it rested upon a scientifically correct view of history.
5. Fabianism was founded in the late nineteenth century by British intellectuals who saw socialism as a completely constitutional political movement. It did not promote violent revolution or the establishment of a dictatorship of the proletariat.

Part B

6. The negative effects of uncontrolled freedom were soon noticeable. Society as a whole seemed to be deteriorating for the mass of the people. Essentially, while the problem of production may have been solved, the problem of **distribution** was not solved. A group of people felt society's problems could be solved if people were given a perfect environment, thus "causing" perfect people. This group of people were called **utopian socialists**. Two philosophers active in this area were **Babeuf, St. Simon, Fourier, Blanc, Owen** (use any two).

In France, new ideas sprung up. Louis Blanc came up with the famous statement: **“From each according to his ability, to each according to his needs.”** Blanc advocated ownership of property by **the state** but the management of the property should be in the hands of **the workers**. Proudhon went even further by advocating the complete end of **formal government** which he felt existed only to **exploit** people. This belief came to be called **anarchism**.

Events in other areas began to influence economics again. A German philosopher called Hegel developed a theory called the **dialectic** which could be defined as **the logical process of change**. In this theory, a thesis was matched by an antithesis which resulted in a **synthesis**. For Hegel, the causal agent, or thesis, was **people acting in the world**.

Marx and Engels then began to use previous ideas in the development of their theories of communism. They published two important books, one of which was **The Communist Manifesto, or Das Kapital**.

Marx and Engels agreed with Hegel’s ideas on the nature of change, but differed on the cause. For Marx and Engels, the cause of change was **changes in the modes of production**. Their beliefs on change were therefore called **dialectical materialism**.

Marx argued that humankind began in a situation where goals and the distribution of goods were **unequal**. As time went on, society changed and people formed themselves into **classes** that were based on **economic** differences. Those in the “upper” classes were able to sustain themselves by exploiting the workers (also called the **proletariat**), and taking over the workers’ **surplus value**. These “upper” classes ultimately become irrelevant to the society and give rise to a new class that eventually **withers away to classlessness**.

Enrichment

1. a. The cartoonist is using symbolism to illustrate the size of the working class, and irony because the man is saying he doesn’t see a force large enough to create a utopia when he is leaning against it.
- b. The implication is that the middle and upper classes did not see the working class as an effective agent of change.
2. a. A socialist’s view of the charts might be the following:

The first chart on death rates shows death rates have actually increased since 1810. The figures are also average figures. I feel the rate would be much higher for industrial workers. The figures for the second chart do show wage increases but prices also rose even more than wages. Workers were really worse off than before the Industrial Revolution. Also, the figures in the chart are for industrial workers only. Farm workers, who make up a larger segment of the work force, have not been included. The figures in this chart are also for workers who have jobs. The number of workers left jobless by the Industrial Revolution must be taken into account.

- b. A capitalist's view of the charts might be the following:

Chart one shows a dramatic drop in death rates. This must be the result of medical improvements brought about by the Industrial Revolution. People also must be getting more food and better housing because they are living longer. The figures in the second chart demonstrate that wages have increased considerably since 1770. Improvements in production will lead to lower prices so workers will be able to buy more things.

Section 2: Activity 1

1. The priorities of the government are reflected in economic decisions.
2. The government makes all economic decisions.
3. The central planning authority takes direction from the government, then puts together an economic plan. The plan is presented to ministries and then formalized by the central planning authority.
4. Centralized decision making provides benefits such as
 - allocating resources to specific industries that are to be built up
 - allocating labour to certain industries
 - having rapid decision making
 - having no competition for resources or labour
5. Generally, the military and heavy industry needed to build the military are stressed, while many consumer products are considered luxury items and, therefore, are not produced, or produced in limited numbers.
6. Decision making is decentralized because most decisions are made by the many individuals involved.
7. The role of the government in this system is in
 - indicative planning
 - regulation through monetary and fiscal policy
 - income equalization and job creation
8. The many free social services have appeal for many people, while for others, the combination of primarily private enterprise with some government regulation is attractive.
9. Some politicians would choose socialism because it promises a more equitable society. Those who have share with those who have not.

Section 2: Activity 2

Part A

1. Lenin implemented Marxist components through
 - the creation of the Communist Party
 - the revolution in which the existing government was overthrown
 - the establishment of an interim dictatorship
 - the socialization of the economy
2. War communism meant that people had to give up certain things (material goods or choices), and that everyone had to make sacrifices to ensure a communist victory in the civil war.
3. Lenin was forced to accept a number of capitalist elements, such as
 - allowing peasants to sell excess produce for profit in open markets
 - returning ownership of small factories to private individuals
 - legalizing private retail trade
4. Stalin felt that before socialism could be spread throughout the world, it had to build a firm foundation in one country, the Soviet Union.
5. Lenin did not make extensive use of force to get workers and peasants to produce more, nor did he set production targets for the entire economy. Stalin, however, used both force and production targets towards the goal of modernization.
6. Stalin used state planning to achieve economic goals by
 - setting up five-year plans with targets and quotas for production
 - emphasizing certain sectors of the economy and allocating resources and labour to those areas
7.
 - a. Forced industrialization was a strong emphasis on industry, particularly heavy industry, the setting of extremely high targets and quotas for production, and forcing workers to meet these.
 - b. Collectivization of agriculture was the joining of small farms into large state farms that would be farmed collectively with increased stress placed on the use of machinery.

Part B

8. In 1921, there was lowered production, starvation, and shortages of goods.
9. Lenin gave up war communism because the people did not want it after the civil war was over. The revolt by sailors at Kronstadt showed this to Lenin.
10.
 - a. The aim of Lenin's N.E.P. was to modernize the Soviet economy by temporarily returning to some capitalistic principles. He also promoted increased access to electrical power throughout the Soviet Union.
 - b. Its characteristics were the promotion of individual incentive and profit making. Peasants were encouraged to produce more food and some private enterprise was allowed.

11. Stalin was able to outmanoeuvre Trotsky because as first party secretary, he filled all vacancies with his own supporters.
12.
 - a. Socialism in one country was Stalin's belief that before socialism could be spread throughout the world the Soviet Union had to become an industrial giant.
 - b. Socialism in one country appealed to the people because they wanted to build up their own country and improve conditions there. Trotsky promoted the worldwide spread of communism.
13. Stalin felt forced industrialization and collectivized agriculture were necessary to make the USSR into an industrial fortress and nationalistic state.

Section 2: Activity 3

1. Centralized economic planning in a developed economy is complex because as the size and scope of an economy increases, it becomes more difficult to gain the specialized knowledge needed to make decisions about such things as the nation's economic capacity.
2. It is possible to determine the capacity of a nation's economy if there are enough committees involved to supply the information, but this is unlikely.
3. Gosplan allocated all resources and labour, set all targets and quotas, set prices, and controlled all marketing procedures.
4. Incentives, in the capitalist sense of "earning more," did not apply. The incentives in this system were achieved for surpassing quotas. One received a bonus as an incentive.
5. The Soviet government regulated consumer sovereignty by pricing high those things they felt were not necessary. They also only produced limited quantities of some things people wanted as long as people could pay for them and as long as they were willing to wait for them to be made.

Section 2: Activity 4

Part A

1. The Soviets gave the Chinese a model to use. The Chinese used the ideas of centralized planning and five-year plans. The Soviets also provided a great deal of aid to the Chinese.
2. Mao's approach was similar to Lenin's in that Mao took control of heavy industry, banks, and foreign trade. The rest of the economy was left in private hands. Small industry and the retail trade were privately owned. In agriculture, Mao gave the land to the peasants and allowed them to sell their extra produce for a profit.
3. Mao's approach to agriculture was cautious. He did not force collectivization. His approach was a slow and cautious process.

4. In the Great Leap Forward, Mao tried to tie agriculture and industry together more closely. The aim was to increase production in both areas, not just industry as had occurred earlier. He stressed the need for everyone to get involved in the program.
5. Mao slowly enforced the process of collectivization. In 1950, there were very few People's Communes but by 1958, all farmers were part of these large collectives. He did not want to make the same mistake Stalin had made.

Part B

6. Mao felt that the peasants were the key to the revolution because if a revolution was to be successful, it would have to have the support of the peasants.
7. Mao's emphasis on communes was based on the need to feed the population and the fact that such a large proportion of the population lived in rural areas.

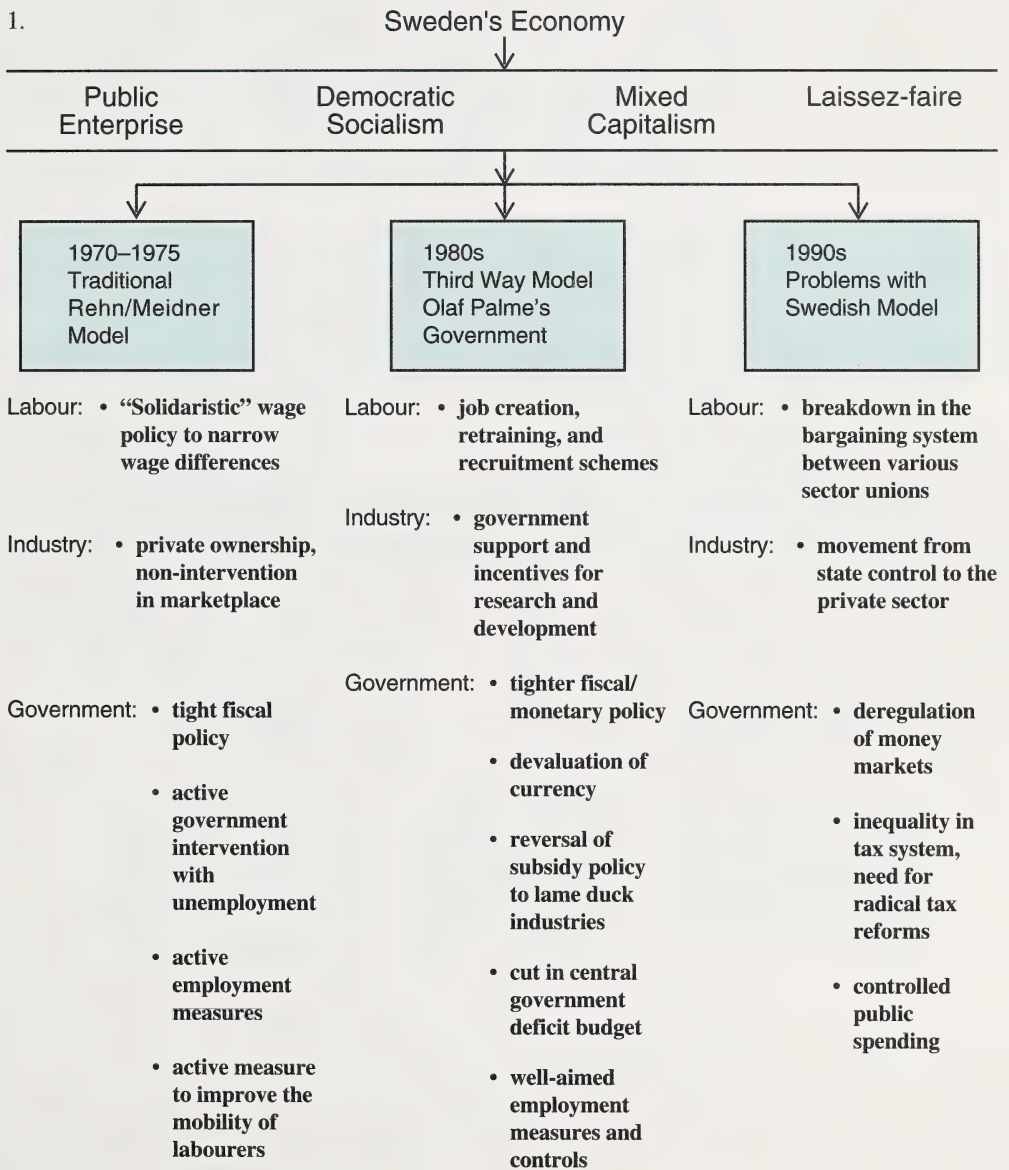
Section 2: Activity 5

1. Sweden has become a socialist country through democratic parliamentary means. It promotes some government regulation within the dominant private sector; equality in income; cooperation between business, government, and labour; and job creation.
2. Business and industry in Sweden is about 85% privately owned and 15% publicly owned.
3. Sweden uses indicative planning, which means the government provides business and industry with economic trends and forecasts which they may or may not use.
4.
 - a. The Act on Co-determination legislates worker involvement in production and marketing decisions. Wage earner funds have companies provide money through taxation to the unions for the purchase of shares.
 - b. The Act on Co-determination and wage earner funds have increased workers' say in economic decision making.
5. Sweden is called the cradle-to-grave welfare state because the state provides free social services for all people, from unborn infants to senior citizens.
6.
 - a. Progressive taxation is based on the idea that the more money you make, the more tax you pay.
 - b. The progressive taxation system helps pay for such things as social services for those who cannot afford them. This equalizes incomes.
7.
 - a. The Third Way was an economic policy implemented in Sweden in 1982.
 - b. Its aims were to keep unemployment and inflation in check and to institute tax reform.

Section 2: Activity 6

Part A

1.



Part B

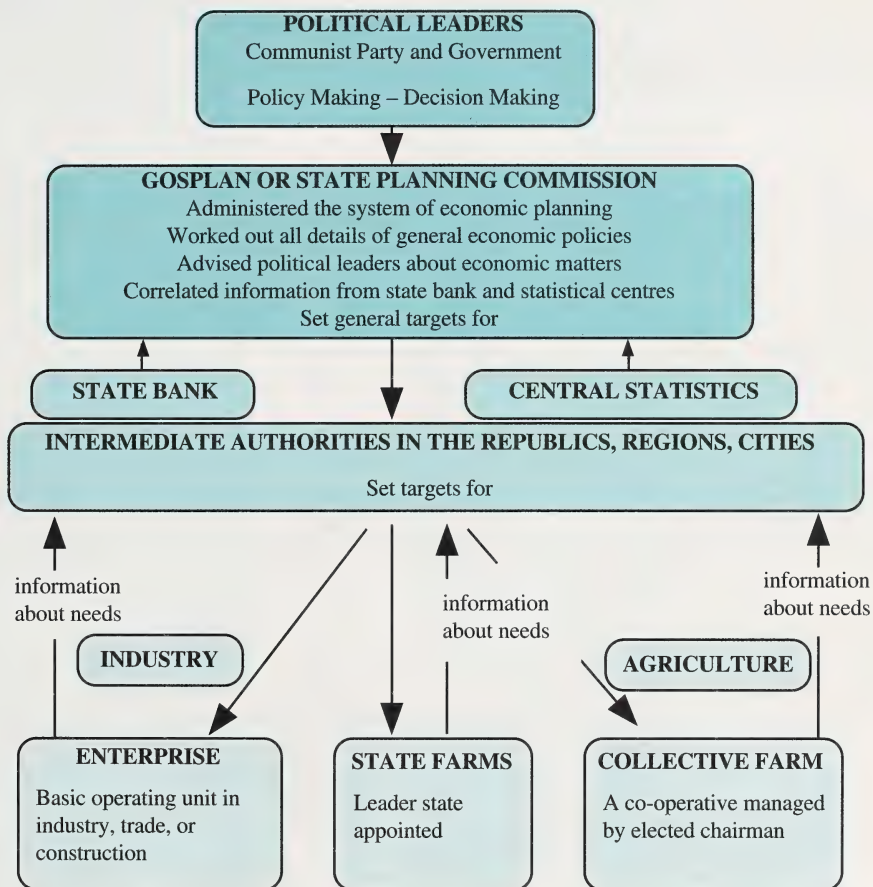
2. The dilemma faced by Sweden was how to restore productivity and foreign competitiveness to their economy without weakening the social welfare structure.
3.
 - a. Democratic socialism is an ideology stemming from the belief that the improved economic and social conditions of a socialist system can be brought about through democratic parliamentary means.
 - b. It stresses individual freedom in its political system and the collective or common good in its economic system.
4. Swedes believe high taxes are necessary to pay for the many social services they receive.
5. The changes in management-worker relations are
 - Volvo: Workers negotiate with employers on any decisions affecting work. There have been alterations to the traditional assembly work with workers rotating among a variety of jobs. Workers are also involved in production planning and marketing decisions.
 - Saab: Workers have developed autonomous work groups that work outside the normal assembly line. They set their own quotas, duties, and they pace, and they manage their own resources.
6. The Office of Equal Opportunity guarantees equal opportunity for men and women in the workplace. The 1980 legislation has had the following results:
 - There are almost as many women as men in the labour force.
 - Employers are reluctant to violate the legislation for fear of being accused publicly of discrimination.

Section 2: Follow-up Activities

Extra Help

1. a.

Central Planning in the Former USSR



b.

	Explanation	Justification
Centralized Planning	Planners made all economic decisions about what to produce, how to produce it, and how to distribute it.	In order to generate economic growth, long-range planning was needed and decisions had to be made on sound economic information.
State Ownership	There was about 97% public ownership of land, resources, factories, business, etc.	This prevented exploitation of workers and promoted the collective good.
Coordination of Resources	Gosplan allocated all resources and labour to those areas emphasized in the five-year plan.	With little or no competition for resources or labour, they had to be used efficiently with all efforts focused on achieving the plan's targets.
Decentralized Decision Making	Very little decentralized decision making occurred – only in the area of consumer purchasing where the consumer decided what to buy and how much.	It gave the people some freedom of choice and helped the planners determine what consumer goods to produce.
Conformity of Purpose Between Political and Economic Bureaucracies	Political leaders passed economic priorities on to the economic planners who implemented these political priorities through the five-year plans.	The government and economic planners had to work together in order to best implement economic plans.

2.

The Essentials of Democratic Socialism

Collective Interests Are More Important Than Interests of the Individual	The Swedes have designed programs that promote equality, sharing, and cooperation. The interest of society outweighs individual interest.
Equality	The Swedes promote equality through attempts at income equalization plans, guaranteed employment, and universal social services.
Economic Cooperation	There is a great deal of cooperation between business, labour, and government in economic decision making and planning.
Government Ownership of Key Industries	The government controls portions of the extractive industries, transportation, public utilities, and natural resources.
Private Ownership of Industries	About 85% is privately owned mainly in the areas of agriculture, shipping, automotives, banking, steel production, and the retail industry.
Comprehensive Social Welfare System	Called the “cradle-to-grave welfare state,” services provided range from prenatal care to maternity benefits, free medical and dental care, subsidized lunches and bus fares, free daycare, and generous old age pensions.
Indicative Planning	The government provides forecasts, trends, and guidelines to business and industry to help them in their economic planning. These groups may or may not use this information.
High Progressive Taxation	In order to pay for the comprehensive social services, Swedes pay high taxes. The philosophy is based on the idea that the more money one makes, the larger the tax contribution. The average rate of tax is 60%.

Enrichment

1. Some of the problems in the Swedish economy would include
 - The state employs almost four out of every ten workers.
 - Generous vacation and other benefit allowances are costly.
 - There is a high rate of absenteeism among workers.
 - They are experiencing lower productivity in export industries.
 - The economic slump is reducing the tax base needed to pay for social programs.
 - The government deficit is growing.
2. Answers will vary but should mention the spending cuts being introduced such as decreasing the number of vacation days, increasing the retirement age from 65 to 66, cutting compensation payments, and increasing user fees.

Section 3: Activity 1

1. This story presents the idea that even though someone works hard while others sit around and do nothing, all will share from the labour of the one. It suggests that this robs people of initiative.
2. The story overgeneralizes in linking complaints about excess capitalist profits, equal rights, labour problems, and personal demotivation to extensive social programming. Only a negative picture of social programs is presented.

Section 3: Activity 2

1. Socialist nations are turning to capitalism to generate faster economic growth, jobs, and higher production.
2. Privatization is turning public- and government-owned companies or enterprises over to private ownership. Many socialist nations are privatizing their Crown- or government-owned companies because many of these companies are poorly run and managed and are drains on government funds.

Section 3: Activity 3

Possible solutions include the following:

- Drop central planning; let the market answer the economic questions.
- Limit central planning; give managers of factories more say in production.
- Drop the quota system; institute quality control checks and pay workers for quality, not quantity.
- Stop subsidizing inefficient enterprises; stress efficiency, and let those who fail go bankrupt.
- Increase the number and quality of consumer goods; let some retail traders move to private ownership.

- Don't set unrealistic production targets.
- Be more flexible towards innovation and inventiveness.
- Let the service industry pass into private hands to increase the number of services; legalize this, so that taxes can be collected.
- Allow farmers to form work groups that can sell excess products for profit in open markets.

Section 3: Activity 4

1. The economic reform movement in
 - the Soviet Union was *perestroika* (restructuring)
 - China was *gai ge* (reform)
2. The two reforms differ because
 - the countries have different cultures
 - the Soviet Union focused on industrial reform, while China's reform stressed agriculture

Section 3: Activity 5

1. *Perestroika* meant economic restructuring in the Soviet Union.
2. Gorbachev implemented the following capitalist measures:
 - The economy was becoming more decentralized.
 - Competition was being introduced.
 - Managers made some production decisions.
 - Enterprises could go bankrupt.
 - Workers were paid according to performance.
 - Quality was stressed.
 - Citizens could make profits.
 - Families or groups could own retail and service industries.
 - Enterprises could hire workers.
 - Foreign investment was being promoted.
 - Farmers could sell excess products for profits in open markets.
3.
 - a. The Law on Cooperatives: Soviet citizens could legally make profits owning businesses such as restaurants, hair salons, etc.
 - b. The Law on State Enterprises: Managers made more production decisions and had to be aware of, and rely on market forces. Factories could go bankrupt, and workers were paid according to performance.
 - c. The Law on Joint Ventures: Joint foreign and Soviet projects were allowed, if Soviets had 51% ownership.

4. Reforms in agriculture centred on contract brigades which allowed groups of farmers, or a single family, to manage (but not own) a tract of farmland, livestock, or other agricultural assets. The farmer kept whatever profit could be made by selling excess production on open markets.
5. Gorbachev's reforms were similar to Lenin's in that each allowed private ownership in the retail trade and small industry. Both allowed farmers to sell excess production for profits in open markets.

Section 3: Activity 6

1. The main character in both cartoons is Mao Tse-tung.
2. The main point of the first cartoon is that the economic policies of Mao took the Chinese economy as far as they could. Further development depends on turning to the West and adopting more capitalist methods.
3. The main point of Source II is that Maoists favoured a command economy and its methods as an economic policy, while the moderates favoured a move to more capitalist practices.
4. The main point in Source III is that Mao, a leader who favoured a command economy, did not respond effectively to the problems of a modern economy.
5. The issue presented could be stated a number of ways. Two examples are
 - To what extent should nations stress government intervention and control in their economies?
 - To what extent should nations stress collectivist philosophies over those of individualism?

Section 3: Activity 7

Part A

1. The family-run farm has been reintroduced. Farmers are being encouraged to grow crops they can sell privately for profit in open markets. Farmers who earn profits are also being encouraged to invest in other enterprises, such as trucking.
2. The Chinese are changing the factory system to give managers more say in production decisions and to improve the quality of products. Workers are paid for the production of quality products.
3.
 - a. Special economic zones are areas in China where foreign investment is encouraged.
 - b. They are being created to bring in more advanced technology to be used by the Chinese labour force.
4. The Chinese military is now much more responsible to fund itself, and so it is becoming involved in the production of consumer goods for sale.

5. The Chinese government moved to limit Western influence, both political and economic, in China. Economic reforms were curtailed and some private enterprises were closed down. The government also carried out an anti-corruption drive. By 1992 the government resumed economic reform efforts.

Part B

6.
 - a. Deng Xiaoping is the present leader of the People's Republic of China.
 - b. He is trying to introduce economic reform into China that would incorporate more capitalistic elements.
7.
 - a. Chinese economic reform began with agriculture because such a large segment of the population lives in rural areas.
 - b. The 10 000 Yuan farmer, or prosperous one, is a rich Chinese farmer by Chinese standards.
8. *Cheng bao* is the contract system. Workers sign employment contracts that are subject to review. This encourages workers to work hard and produce quality goods, because now they can be fired.
9. Advertising is playing an increasing role in the Chinese economy. It is leading to an increased demand for consumer products.
10. The government regulates consumer demand by limiting the supply of certain consumer products, such as jewelry.
11. The Chinese leadership is encouraging the Chinese people to work hard, to sell quality products, and to become rich on the profits.
12.
 - a. The Chinese “open door” policy is an opening up to foreign influence and foreign investment.
 - b. Foreign companies are bringing in Western products, as well as Western technology and management techniques.

Section 3: Follow-up Activities

Extra Help

1.
 - a. The author presents the view that the system can be abused by those who do not want to work, and that those who work hard are penalized by helping those who do not. The author suggests that this causes people to lose their motivation to work.
 - b. Answers will vary. Give support with specific examples. Be careful not to overgeneralize or stereotype.

2. These are some of the positive aspects of the social programs mentioned in the article:

Pension plans provide people with security in their retirement. Unemployment insurance provides income when people unavoidably lose their jobs or have difficulty finding a new job. Health care provides equal medical care to all people regardless of income. Income tax provides many necessary services to citizens of a country.

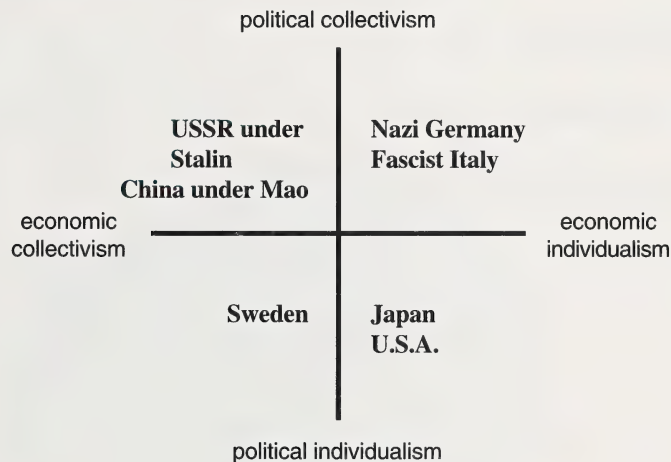
3. **Economic Reform in the Former USSR and China**

	Industry	Agriculture	Foreign Investment	Retail Industry
Perestroika Former Soviet Union	<p>The Law on State Enterprises gave managers more decision-making power. They were to rely on market forces and were to be financially independent. Inefficient factories could now go bankrupt. Workers were paid according to their performance. Quality products were stressed and quality controls were used.</p>	<p>Contract brigades were groups of farmers or a single family who managed a tract of land, livestock, or other agriculture assets. The farmer kept whatever profits that were made from the sale of these products. Machine shops and trucking firms were allowed.</p>	<p>The Law on Joint Ventures allowed Soviet firms to form profit-making partnerships with foreign firms; however, the Soviet firm had to own at least 51% of it. It was an attempt to bring in western technology and management techniques.</p>	<p>The Law on Cooperatives dealt with two types of cooperatives. The first were small individually- or family-run enterprises such as tailoring or automotive repairing. These individuals were encouraged to supply goods and services for profit. The second were larger ventures like restaurants, beauty salons, etc. These ventures also sold goods and services for profit and they could hire other workers.</p>
Gai Ge China	<p>Factory managers have more autonomy in making decisions. Production and profits or losses are to be determined by market forces. Quality is stressed. <i>Cheng bao</i> – workers sign contracts and are rewarded based on quality production. Now they can be fired.</p>	<p>Family-run farms are encouraged; farmers are encouraged to sell their excess for profit in open markets. Those becoming rich are known as the 10 000 Yuan farmers. Farmers are also encouraged to invest in other enterprises, such as trucking or fertilizer production.</p>	<p>With their special economic zones, the Chinese are offering incentives, such as reasonable land and labour rates, to attract foreign investment in order to bring in western technology and management techniques.</p>	<p>Restaurants, beauty salons, auto repair, and street vending are returning to private ownership. Those who are successful can hire other workers.</p>

Enrichment

1. The Soviet satellite countries in Eastern Europe were freed from Soviet control in 1989. Communist leaders in most Eastern European countries gave up power so that non-Communist governments could be formed.
2. Reasons need to be given to support the position taken. The article does mention that the republics of the Soviet Union saw how *perestroika* and *glasnost* led to independence of the satellite countries in Eastern Europe and that as a result the republics wanted this same independence.
3. This will vary depending on the media sources available and the events that occur. Although various political changes will be experienced, look for articles that mention the economic changes that occur.

Section 4: Activity 1



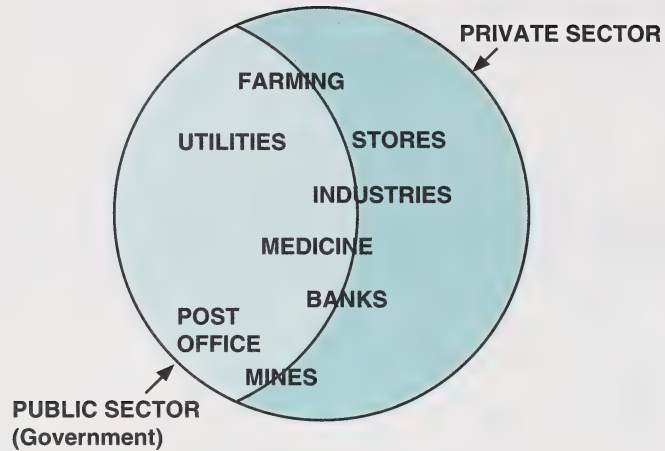
Section 4: Activity 2

1. Jones seems to lean towards a capitalist philosophy because she is opposed to dependence by individuals on the state and on high taxes to support these programs.

Brown seems to lean towards socialism because he supports restrictions on big business and welfare programs that encourage a more equitable society.

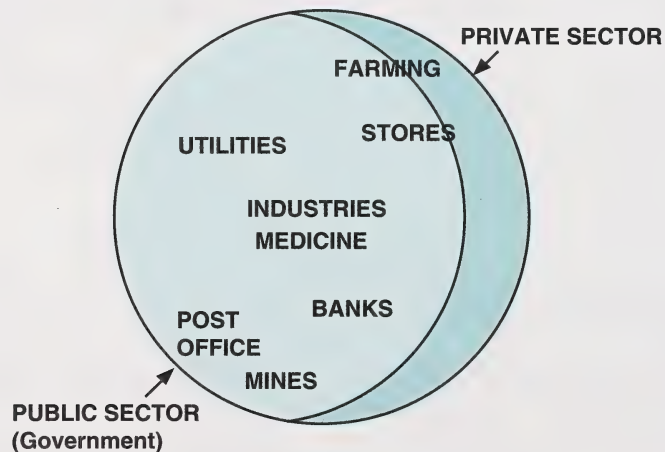
2. Each speaker supports some features of both systems and so both would probably accept a mixed economy.
3. Both points of view seem to address the issue: "Should economic well-being be encouraged by government programs?"

Section 4: Activity 3



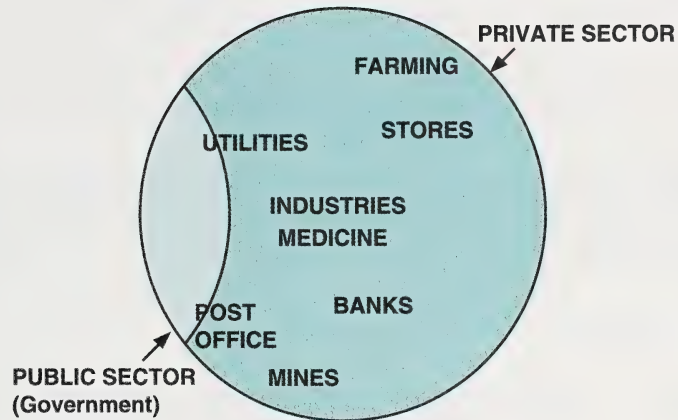
Label: Welfare State

Justification: The government owns certain industries, but still much of the economy is in private hands.



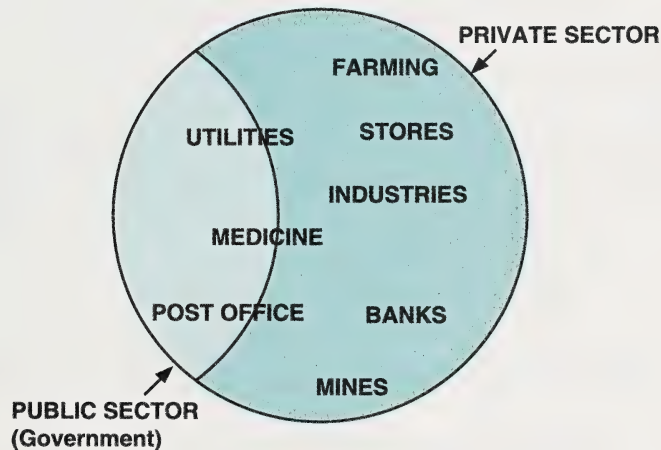
Label: Command Economy

Justification: The government owns nearly all of the means of production in the economy.



Label: Capitalism

Justification: The private sector owns nearly all the means of production. There is almost no government intervention in the economy.



Label: Mixed Economy

Justification: Most of the means of production are in private hands but there is some government control and regulation.

Section 4: Activity 4

1. The economy described by the chart would be either a mixed economy or the welfare state because utilities, shipyards, transportation, and communication are, for the most part, publicly owned while the rest remains in private hands.
2. To make the chart more representative of a command economy, nearly all of the “privately-owned” percentages would move to the “state-owned” column. The opposite would be true for a capitalist system.

Section 4: Activity 5

1. a. The first strategy, by Keynes, would be considered somewhat socialist because it promotes government intervention in the economy during both periods of recession and inflation.
b. The second strategy, Reaganomics, would be considered more capitalistic because it promotes cuts in government spending, cuts in expenditures on social services, and promotes more individual responsibility.
2. If a person were to make use of the Keynes strategy, some possible consequences follow:
 - an increased government deficit
 - less drastic swings in the business cycle
 - lower unemployment and lower inflation
 - extensive social services

If a person were to make use of the Reaganomics strategy, some possible consequences follow:

- increased economic growth
- job creation
- business expansion
- more expensive social services
- lowered government debt

Section 4: Activity 6

1.
 - Speaker III supports the welfare state.
 - Speaker I supports a capitalist economy.
 - Speaker II supports a command economy.
2. The following issues are being addressed by the speakers:
 - Should society stress individual freedom or state control?
 - Should the interests of society take precedence over the interests of the individual?
3. We must have a society that encourages individual initiative and private ownership, but also ensures that all members of society have equal access to a basic standard of living.

Section 4: Follow-up Activities

Extra Help

1.

	Capitalism	Mixed Economy	Welfare State	Command Economy
Profit Motive	<ul style="list-style-type: none"> provides the incentive for all production 	<ul style="list-style-type: none"> provides the incentive for almost all production 	<ul style="list-style-type: none"> provides the incentive for most production 	<ul style="list-style-type: none"> profit used for reinvestment no individual profit
Intervention	<ul style="list-style-type: none"> minimal government only in the areas of law and order, and some utilities 	<ul style="list-style-type: none"> some government involvement in law and order, post office, utilities some industry regulation through monetary and fiscal policy 	<ul style="list-style-type: none"> more government involvement in law and order, post office, banks, transportation, and some industry regulation through monetary fiscal policy 	<ul style="list-style-type: none"> total government involvement state owns all tight regulation through central planning
Planning	<ul style="list-style-type: none"> little or no formal government planning each individual responsible for own planning 	<ul style="list-style-type: none"> some planning in setting budget and policy still most planning is left to the individual 	<ul style="list-style-type: none"> indicative planning strategic plans make forecasts or provide guidelines to industry and business 	<ul style="list-style-type: none"> centralized planning sets targets, quotas, and allocates all resources and sets all prices
Social Programs	<ul style="list-style-type: none"> minimal are the responsibility of the individual 	<ul style="list-style-type: none"> most are government sponsored, paid for through taxes 	<ul style="list-style-type: none"> extensive universal services, paid for by government 	<ul style="list-style-type: none"> extensive universal services, paid for by the government
Competition	<ul style="list-style-type: none"> motivating factor is to produce quality products at the lowest price possible 	<ul style="list-style-type: none"> motivating factor is to produce quality products at the lowest price possible Government ensures competition exists. 	<ul style="list-style-type: none"> motivating factor is to produce quality products at the lowest price some services provided by the state monopoly 	<ul style="list-style-type: none"> very little competition, not even for labour or resources because these are allocated results in low quality products

Private Ownership	<ul style="list-style-type: none"> • nearly 100% 	<ul style="list-style-type: none"> • almost all, (approximately 90%) 	<ul style="list-style-type: none"> • most, 85% 	<ul style="list-style-type: none"> • almost none, 2-3%
Pricing	<ul style="list-style-type: none"> • determined by the market through supply and demand 	<ul style="list-style-type: none"> • mostly determined through the market by supply and demand • some prices fixed (agriculture) 	<ul style="list-style-type: none"> • mostly through the market by supply and demand • some prices fixed (rent control, agriculture) 	<ul style="list-style-type: none"> • prices are set prior to production by a prices committee

2. a. **D.** former USSR
- b. **C.** entrepreneurship in the market place
- c. **A.** increased government spending

Enrichment

1. a. The cartoon expresses bias in the statement “in spite of oppressive government regulation and taxation, the ongoing cost-price squeeze, and unending and unreasonable wage demands...” The use of the terms “oppressive,” “unending,” and “unreasonable” strongly expresses a one-sided view of the situation.
- b. The speaker is expressing the values of a capitalist profit motive, no government intervention, and competition.
- c. The issue addressed in the cartoon is: To what extent should government regulate the affairs of private business?
2. a. The positive results are B, D, E, G, H, J.
The negative results are A, C, F, I.
- b. Canada is considering selling more Crown corporations that lose money. Provincial governments have passed legislation limiting the right to strike of certain groups. Interest rates and mortgage rates have increased.
3. Possible consequence of the policy would be
 - lowered health standards
 - health benefits may be restricted to those that can afford them
 - lowering or shortening the length of unemployment benefits

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